

Ratings on the Uninsured Bonds*

Moody's Rating: Aa2
Standard & Poor's Rating: AA

New Issue
Book-Entry Only

Ratings on the Insured Bonds**

Moody's Rating: Aaa
Standard & Poor's Rating: AAA

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption" and "Certain Other Federal Tax Consequences" under "Legal and Tax Information" herein.

\$110,000,000

The City of Seattle, Washington

Water System Revenue Bonds, 1999, Series B

DATED: October 1, 1999**DUE: July 1, as shown below**

The Bonds will be issued as fully registered bonds under a book-entry only system, registered in the name of Cede and Co. as bond owner and nominee for DTC. DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds will be paid semiannually on each January 1 and July 1, commencing July 1, 2000. The principal of and premium, if any, and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agency of the State of Washington (currently The Bank of New York in New York, New York, and its co-fiscal agency, Well Fargo Bank N.A., Seattle, Washington), to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—Book-Entry Transfer System" and in Appendix D.

The Bonds are being issued to finance certain capital improvements to and conservation programs for the City's Water System, to meet the Reserve Requirement for the Bonds and to pay the issuance costs of the Bonds.

The Bonds are subject to redemption prior to maturity as described herein.

The Bonds are special limited obligations of the City. The Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (subject to certain restrictions) are pledged for payment of all Parity Bonds, including the Bonds. This pledge is superior to any other liens or charges. See "Security for the Bonds."

The Bonds do not constitute general obligations of the City, the State of Washington or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the ordinance authorizing the issuance of the Bonds. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Water System, are pledged to the payment of the Bonds.

<u>Due July 1</u>	<u>Amounts</u>	<u>Interest Rates</u>	<u>Yields</u>	<u>Due July 1</u>	<u>Amounts</u>	<u>Interest Rates</u>	<u>Yields</u>
2001	\$1,725,000	5.00%	4.23%	2011	\$2,735,000	5.50%	5.37%
2002	1,800,000	5.00	4.40	2012	2,880,000	5.75	5.47
2003	1,875,000	5.00	4.55	2013	3,035,000	5.75	5.57
2004	1,960,000	5.00	4.65	2014	3,200,000	5.75	5.65
2005	2,050,000	5.00	4.78	2015	3,380,000	5.75	5.72
2006	2,145,000	5.00	4.88	2016	3,565,000	5.75	5.77
2007	2,250,000	5.00	4.98	2017	3,765,000	5.75	5.90
2008	2,360,000	5.00	5.08				
2009	2,475,000	5.50	5.15				
2010	2,600,000	5.50	5.25	2020	4,445,000	5.75	5.98

\$8,185,000 5.75% Term Bonds due July 1, 2019 @ 5.93%

\$14,925,000 5.75% Term Bonds due July 1, 2023 @ 5.98%

\$38,645,000 6.00% Term Bonds due July 1, 2029 @ 6.05%

(Plus accrued interest from the dated date.)

* Uninsured Bonds are the Bonds maturing on July 1, 2001 through July 1, 2016, inclusive. See "Ratings on the Uninsured Bonds" under "Other Bond Information" herein.

** Insured Bonds are the Bonds maturing on July 1 in the years 2017, 2019, 2020, 2023, and 2029. Payment of the principal of and interest on the Insured Bonds when due will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the Insured Bonds by Financial Guaranty Insurance Company. See "Municipal Bond Insurance" and "Ratings on the Insured Bonds" under "Other Bond Information" herein.



**Financial Guaranty Insurance
Company**

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

The Bonds are offered for delivery by the Purchaser, when, as and if issued, subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. It is expected that the Bonds will be ready for delivery at the facilities of DTC in New York, New York, on or about October 26, 1999.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

Dated: October 13, 1999

The City of Seattle
City Officials and Consultants

Mayor and Council

Paul Schell	Mayor
Sue Donaldson	President, City Council
Martha Choe	Council Member
Richard Conlin	Council Member
Jan Drago	Council Member
Nick Licata	Council Member
Richard McIver	Council Member
Margaret Pageler	Council Member
Tina Podlodowski	Council Member
Peter Steinbrueck	Council Member

City Administration

Dwight D. Dively	Executive Services Director and Finance Director
Mark Sidran	City Attorney

Seattle Public Utilities

Diana Gale	Managing Director
Debbie Broughton	Finance and Administration Branch Executive
Pat Colson	Customer Service Branch Executive
Scott Haskins	Resource Management Branch Executive
Tom Tanner	Engineering Services Branch Executive
Raj Manhas	Field Operations Branch Executive

Financial Advisor

Seattle-Northwest Securities Corporation
Seattle, Washington

Bond Counsel

Foster Pepper & Shefelman PLLC
Seattle, Washington

No dealer, broker, salesperson, or any other person has been authorized by the City to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create an implication that there has been no material change in the affairs of the City since the date of this Official Statement.

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OFFICIAL STATEMENT

\$110,000,000

The City of Seattle, Washington

Water System Revenue Bonds, 1999, Series B

This Official Statement, which includes the cover page and the appendices, contains certain information concerning The City of Seattle (the “City” or “Seattle”), Seattle Public Utilities (“SPU”), the City’s water system, referred to in the ordinance authorizing the issuance of the Bonds as the “Municipal Water System” (the “Water System”), and the City’s Water System Revenue Bonds, 1999, Series B (the “Bonds”) in connection with the offering and sale of the Bonds.

The Bonds are being issued to finance certain capital improvements to and conservation programs for the Water System, to meet the Reserve Requirement for the Bonds and to pay the issuance costs of the Bonds. The Bonds are to be issued pursuant to chapter 35.92 Revised Code of Washington (“RCW”), the Seattle City Charter, Ordinance 119649, passed by the City Council on September 7, 1999 (the “Ordinance”) and Resolution 30057, adopted on October 13, 1999 (the “Resolution”).

Appendix A to this Official Statement is a copy of the Ordinance. Appendix B is the form of approving legal opinion of Foster Pepper & Shefelman PLLC of Seattle, Washington (“Bond Counsel”). Appendix C is the Water System’s audited 1998 financial statements. Appendix D is a description of DTC procedures with respect to book-entry bonds. Appendix E provides a specimen municipal bond insurance policy for the Insured Bonds. Appendix F provides certain information regarding the Reserve Insurance that secures a portion of the Reserve Requirement. Capitalized terms that are not defined herein have the meanings set forth in Section 1 of the Ordinance and in the Resolution.

Description of the Bonds

Registration and Denomination

The Bonds are issuable only as fully registered bonds and when issued will be registered in the name of Cede and Co. as registered owner and nominee for the Depository Trust Company (“DTC”), New York, New York. DTC will act as initial securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased.

The Bonds will be dated October 1, 1999. The Bonds will mature on the dates and in the amounts and will bear interest (payable semiannually on each January 1 and July 1, commencing July 1, 2000) at the rates set forth on the cover of this Official Statement. Interest on the Bonds is to be computed on the basis of a 360-day year consisting of twelve 30-day months. The principal of and premium, if any, and interest on the Bonds are payable by the City’s Bond Registrar, currently the fiscal agency of the State of Washington (currently The Bank of New York in New York, New York, and its co-fiscal agency, Wells Fargo Bank N.A., Seattle, Washington) to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under “Description of the Bonds—Book-Entry Transfer System” and Appendix D.

Redemption of Bonds

Optional Redemption. The Bonds maturing in the years 2001 through 2009, inclusive, are not subject to redemption prior to maturity. The Bonds maturing on and after July 1, 2010, are subject to redemption prior to maturity at the option of the City on and after July 1, 2009, as a whole or in part at any time (maturities to be selected by the City, and within a maturity by lot in such manner as the Bond Registrar may determine and, so long as the Bonds are held in book-entry form, in accordance with the procedures established by the securities depository) at the following prices (expressed as a percentage of par) plus accrued interest:

<u>Redemption Dates</u>	<u>Redemption Price</u>
From July 1, 2009, through June 30, 2010	101%
On July 1, 2010, and thereafter	100%

Mandatory Redemption. If not previously redeemed as described above, the Term Bonds will be called for redemption by lot (or in such other manner as the Bond Registrar shall determine) at a price of par, plus accrued interest on the date of redemption, on July 1 in the years and amounts as follows:

<u>2019 Term Bonds</u>		<u>2023 Term Bonds</u>		<u>2029 Term Bonds</u>	
<u>Years</u>	<u>Amounts</u>	<u>Years</u>	<u>Amounts</u>	<u>Years</u>	<u>Amounts</u>
2018	\$3,980,000	2021	\$4,700,000	2024	\$5,560,000
2019*	4,205,000	2022	4,970,000	2025	5,885,000
		2023*	5,255,000	2026	6,230,000
				2027	6,595,000
				2028	6,980,000
				2029*	7,395,000

* Final maturity.

Notice of Redemption. Notice of any intended redemption will be given not less than 30 nor more than 60 days prior to the redemption date by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The requirements of this section will be deemed to have been fulfilled when notice is mailed, whether or not it actually is received by the owner of any Bond. As long as the Bonds are held in book-entry form, notices will follow procedures established by the securities depository. See "Description of the Bonds—Book-Entry Transfer System."

Open Market Purchase

The City reserves the right to purchase any of the Bonds on the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Book-Entry Transfer System

Book-Entry Bonds. DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond for each maturity, as set forth on the cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede and Co., as nominee for DTC. See Appendix D for additional information. *As indicated therein, certain information in Appendix D has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm its contents with DTC or its participants.*

Termination of Book-Entry Transfer System. If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC or if the City determines that a continuation of the book-entry transfer system is not in the best interest of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of \$5,000 or any integral multiple thereof. Thereafter, the principal of the Bonds will be payable upon due presentment and surrender thereof at the principal office of the Bond Registrar. Interest on the Bonds will be payable by check or draft mailed on the interest payment date to the persons in whose names such Bonds are registered, at the address appearing upon the Bond Register on the 15th day of the month next preceding the interest payment date or, at the request of the owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer

to the account in the United States designated in writing by the owner prior to the Record Date. The Bonds will be transferable as provided in the Ordinance.

Refunding or Defeasance of Bonds

The City may issue refunding bonds or use money available from any other lawful source to redeem and retire, release, refund, or defease the Bonds or any portion thereof (the “Defeased Bonds”). If sufficient money and/or Government Obligations, taking into account known earned income from the investment thereof, are set aside in a special fund pledged to the redemption, retirement or defeasance of the Defeased Bonds (the “Trust Account”), then all right and interest of the owners of the Defeased Bonds in the pledges and covenants of the Ordinance and in the revenues and the funds and accounts pledged to the payment of the Defeased Bonds will cease and become void. Such owners thereafter will receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. See Appendix A—Section 26, Advance Refunding or Defeasance of Bonds.

Use of Proceeds

The proceeds of the Bonds will provide funds (i) for certain capital improvements and additions to, and conservation programs for, the Water System (the “Plan of Additions”), (ii) to meet the Reserve Requirement for the Bonds and (iii) to pay the issuance costs of the Bonds.

Sources and Uses of Funds

The proceeds of the Bonds (less accrued interest) will be applied as follows:

Sources of Funds

Par Amount of Bonds	\$ 110,000,000
Net Original Issue Discount	<u>(646,936)</u>
Total Sources of Funds	<u>\$ 109,353,064</u>

Uses of Funds

Projects, Issuance Expenses and Reserve Insurance	\$ 108,765,664
Underwriter’s Discount and Bond Insurance*	<u>587,400</u>
Total Uses of Funds	<u>\$ 109,353,064</u>

* Paid by underwriter.

Security for the Bonds

Pledge of Net Revenue

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Water System and all money and investments held in the Bond Account, the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code). This pledge constitutes a lien and charge upon the Net Revenue on a parity with that of other Parity Bonds and superior to any other liens or charges.

The Bonds do not constitute general obligations of the City, the State of Washington (the “State”) or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the Ordinance. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Water System, are pledged to the payment of the Bonds.

The Water Revenue Bond Account (the “Bond Account”) has been created in the Water Fund for the sole purpose of paying the principal of and interest on all Parity Bonds, including the Bonds. The City has agreed to pay into the Bond Account on or prior to the respective dates on which principal and interest are payable, all utility local improvement district (“ULID”) assessments on their collection (except for ULID assessments deposited in a construction account) and certain amounts from the Net Revenue of the Water System sufficient to pay such principal and interest when due. See Appendix A—Section 13, Bond Account, Section 17, Pledge of Net Revenue and Lien Position and Section 19, Flow of Funds.

Reserve Subaccount

The Reserve Subaccount has been created in the Bond Account to secure the payment of the principal of and interest on the Parity Bonds. So long as any Parity Bonds remain outstanding, the City will maintain the Reserve Subaccount at the lesser of Maximum Annual Debt Service or 125 percent of Average Annual Debt Service on the Parity Bonds (the “Reserve Requirement”). Under the Ordinance, the City must fund the increase in the Reserve Requirement due to the issuance of the Bonds from (i) Bond proceeds, (ii) Net Revenue in five annual installments or (iii) Reserve Insurance. The City will satisfy the Reserve Requirement upon the issuance of the Bonds through Reserve Insurance. See Appendix A—Section 1, Definitions, Section 13, Bond Account and Section 20, Provisions for Future Parity Bonds. See also Appendix F—Certain Information Regarding the Reserve Insurance.

Outstanding Bonds

Outstanding Parity Bonds. Outstanding obligations (other than the Bonds) payable from the Bond Account are the City’s \$256,255,000 Water System and Refunding Revenue Bonds, 1993, issued pursuant to Ordinance 116705 (the “1993 Bonds”), \$53,000,000 Water System Revenue Bonds, 1997, issued pursuant to Ordinance 118512 (the “1997 Bonds”), \$80,000,000 Water System Revenue Bonds, 1998, issued pursuant to Ordinance 118973 (the “1998 Bonds”), and \$100,000,000 Water System Revenue Bonds, 1999, issued pursuant to Ordinance 119457 (the “1999A Bonds”). As of July 31, 1999, \$442,455,000 principal amount of the 1993 Bonds, the 1997 Bonds, the 1998 Bonds and the 1999A Bonds (collectively, the “Outstanding Parity Bonds”) was outstanding. The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are referred to herein as the “Parity Bonds.”

Subordinate Lien Bonds. The City currently has Water System Adjustable Rate Revenue Bonds, 1995, outstanding in the aggregate principal amount of \$45,000,000 (the “Subordinate Lien Bonds”). The City has reserved the right to convert the Subordinate Lien Bonds to Parity Bonds, at its discretion, upon satisfaction of the conditions for the issuance of Future Parity Bonds under the ordinances authorizing the Parity Bonds.

Additional Obligations

Future Parity Bonds. Future Parity Bonds may be issued upon satisfaction of certain conditions set forth in the Ordinance. Among other conditions, the City must have on file at the time of the issuance of the Future Parity Bonds (i) a certificate from the Finance Director (the “Parity Certificate”) showing that during any 12 consecutive months out of the preceding 24 months Adjusted Net Revenue was at least equal to 1.25 times the Adjusted Annual Debt Service (the “Coverage Requirement”) for all Parity Bonds plus the Future Parity Bonds to be issued or (ii) a certificate of the Finance Director and the Director of SPU stating that, in their opinion, the Adjusted Net Revenue (taking into account certain permitted revenue adjustments) will be at least equal to the Coverage Requirement for the five years next following the earlier of (a) the end of the period during which interest on the Future Parity Bonds to be issued is capitalized or, if no interest is capitalized, the year in which the Future Parity Bonds are issued or (b) the date on which substantially all the facilities financed with those Future Parity Bonds are expected to commence operations. See Appendix A—Section 20, Provisions for Future Parity Bonds.

Parity Payment Agreements. The City may enter into Parity Payment Agreements secured by a pledge and lien on Net Revenue on a parity with the Parity Bonds, subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See Appendix A—Section 20, Provisions for Future Parity Bonds.

Contract Resource Obligations. The City may enter into Contract Resource Obligations for the acquisition, from facilities to be constructed, of water supply, transmission or other commodity or service and may determine that all payments under those Contract Resource Obligations (including payments prior to the time such supply or service is being provided or during suspension or after termination of supply or service) will be an Operation and Maintenance Expense, upon compliance with certain requirements of the Ordinance. See Appendix A—Section 23, Contract Resource Obligations.

Future Subordinate Lien Bonds. In the Ordinance, the City has reserved the right to issue revenue bonds or other obligations having a lien on Gross Revenue subordinate to the lien thereon of the Parity Bonds.

Rate Covenant

The City has covenanted to establish, maintain and collect rates and charges for water service which will produce Adjusted Net Revenue of the Water System available for debt service on each calendar year at least equal to the Coverage Requirement. See Appendix A—Section 18, Parity Bond Covenants.

Rate Stabilization Account. The City may deposit Gross Revenue and any other money received by the Water System into the Rate Stabilization Account and may withdraw money from that account for inclusion in Adjusted Gross Revenue for any fiscal year of the Water System. No deposit of Gross Revenue will be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement. The balance of the Rate Stabilization Account as of December 31, 1998, was zero. See Appendix A—Section 15, Rate Stabilization Account.

Other Covenants

The City has entered into other covenants, including those with respect to (i) maintenance of the Water System, (ii) sale of the Water System and (iii) preservation of tax exemption for interest on the Bonds. See Appendix A—Section 18, Parity Bond Covenants and Section 24, Preservation of Tax Exemption for Interest on Bonds.

Separate Utility Systems

The City may create, acquire, construct, finance, own, and operate one or more additional systems for water supply, transmission or other commodity or service. The revenue of the separate system will not be included in Gross Revenue, and may be pledged to the payment of revenue obligations issued for the purposes of the separate system. Neither the Gross Revenue nor the Net Revenue of the Water System will be pledged to the payment of any obligations of the separate system, except as a Contract Resource Obligation or on a basis subordinate to the lien of the Parity Bonds on that Net Revenue. See Appendix A—Section 22, Separate Utility Systems.

Combined Utility Systems

The City has reserved the right to combine the Water System with other City utility systems upon the maturity, redemption or defeasance of all of the then outstanding 1993 Bonds. See Appendix A—Section 1, Definitions.

Debt Service Requirements

The following table shows the debt service to be paid from the Net Revenue of the Water System.

**Water System Revenue Bonds
Debt Service Requirements**

Total		Parity Bonds										Total	Total
Subordinate Lien		1993 Bonds		1997 Bonds		1998 Bonds		1999A Bonds		The Bonds		Parity Bonds	
Date	Debt Service	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Debt Service	Debt Service
1999	\$ 1,800,000	\$ 9,775,000	\$ 11,063,630	\$ 900,000	\$ 2,871,709	\$ 1,325,000	\$ 3,964,025	\$ 0	\$ 1,279,355	\$ 0	\$ 0	\$ 31,178,718	\$ 32,978,718
2000	2,790,000	10,285,000	10,611,898	935,000	2,823,334	1,380,000	3,904,400	1,580,000	5,085,819	0	4,710,638	41,316,088	44,106,088
2001	2,849,000	10,725,000	10,127,460	975,000	2,773,078	1,435,000	3,842,300	1,635,000	5,021,519	1,725,000	6,280,850	44,540,206	47,389,206
2002	2,805,000	11,245,000	9,610,643	1,020,000	2,720,671	1,495,000	3,777,725	1,700,000	4,954,819	1,800,000	6,194,600	44,518,458	47,323,458
2003	2,761,000	11,840,000	9,058,085	1,065,000	2,665,846	1,560,000	3,710,450	1,765,000	4,884,636	1,875,000	6,104,600	44,528,618	47,289,618
2004	2,816,000	12,395,000	8,464,518	1,110,000	2,608,603	1,630,000	3,640,250	1,840,000	4,810,504	1,960,000	6,010,850	44,469,724	47,285,724
2005	2,768,000	7,995,000	7,810,640	1,160,000	2,548,940	1,700,000	3,558,750	1,920,000	4,731,754	2,050,000	5,912,850	39,387,934	42,155,934
2006	2,819,000	7,360,000	7,381,775	1,215,000	2,486,590	1,780,000	3,473,750	2,000,000	4,646,954	2,145,000	5,810,350	38,299,419	41,118,419
2007	2,767,000	4,780,000	6,953,388	1,275,000	2,421,284	1,865,000	3,384,750	2,090,000	4,555,929	2,250,000	5,703,100	35,278,450	38,045,450
2008	2,814,000	5,320,000	6,681,950	1,340,000	2,352,753	1,955,000	3,291,500	2,185,000	4,458,649	2,360,000	5,590,600	35,535,451	38,349,451
2009	2,758,000	5,610,000	6,388,206	1,405,000	2,280,728	2,050,000	3,193,750	2,285,000	4,348,413	2,475,000	5,472,600	35,508,696	38,266,696
2010	2,801,000	5,935,000	6,074,225	1,475,000	2,205,209	2,150,000	3,091,250	2,395,000	4,225,563	2,600,000	5,336,475	35,487,721	38,288,721
2011	2,840,000	6,275,000	5,738,450	1,550,000	2,125,928	2,260,000	2,983,750	2,510,000	4,096,806	2,735,000	5,193,475	35,468,409	38,308,409
2012	2,776,000	6,630,000	5,383,563	1,630,000	2,042,228	2,375,000	2,870,750	2,635,000	3,961,750	2,880,000	5,043,050	35,451,340	38,227,340
2013	2,811,000	7,020,000	5,008,188	1,720,000	1,952,578	2,495,000	2,752,000	2,765,000	3,820,000	3,035,000	4,877,450	35,445,215	38,256,215
2014	2,842,000	7,420,000	4,611,088	1,810,000	1,856,258	2,625,000	2,627,250	2,910,000	3,671,031	3,200,000	4,702,938	35,433,564	38,275,564
2015	2,770,000	7,850,000	4,191,163	1,905,000	1,754,898	2,765,000	2,496,000	3,060,000	3,514,319	3,380,000	4,518,938	35,435,316	38,205,316
2016	2,797,000	8,295,000	3,747,175	2,010,000	1,648,218	2,910,000	2,357,750	3,215,000	3,349,600	3,565,000	4,324,588	35,422,330	38,219,330
2017	2,820,000	8,735,000	3,278,850	2,120,000	1,535,658	3,065,000	2,212,250	3,385,000	3,176,350	3,765,000	4,119,600	35,392,708	38,212,708
2018	2,839,000	9,215,000	2,785,225	2,235,000	1,416,938	3,225,000	2,059,000	3,565,000	2,993,913	3,980,000	3,903,113	35,378,188	38,217,188
2019	2,854,000	9,750,000	2,275,875	2,355,000	1,291,219	3,400,000	1,897,750	3,755,000	2,801,763	4,205,000	3,674,263	35,405,869	38,259,869
2020	2,766,000	10,375,000	1,747,594	2,485,000	1,158,750	3,580,000	1,727,750	3,960,000	2,599,244	4,445,000	3,432,475	35,510,813	38,276,813
2021	2,777,000	8,900,000	1,475,250	2,625,000	1,018,969	3,770,000	1,548,750	4,175,000	2,385,700	4,700,000	3,176,888	33,775,556	36,552,556
2022	2,784,000	9,470,000	1,008,000	2,770,000	871,313	3,970,000	1,360,250	4,400,000	2,160,606	4,970,000	2,906,638	33,886,806	36,670,806
2023	2,787,000	9,730,000	510,825	2,925,000	715,500	4,180,000	1,161,750	4,635,000	1,923,438	5,255,000	2,620,863	33,657,375	36,444,375
2024	2,786,000	0	0	3,090,000	550,969	4,400,000	952,750	4,890,000	1,673,406	5,560,000	2,318,700	23,435,825	26,221,825
2025	2,781,000	0	0	3,260,000	377,156	4,635,000	732,750	5,155,000	1,406,503	5,885,000	1,985,100	23,436,509	26,217,509
2026	0	0	0	3,445,000	193,781	4,880,000	501,000	5,435,000	1,121,897	6,230,000	1,632,000	23,438,678	23,438,678
2027	0	0	0	0	0	5,140,000	257,000	5,735,000	821,703	6,595,000	1,258,200	19,806,903	19,806,903
2028	0	0	0	0	0	0	0	6,045,000	505,116	6,980,000	862,500	14,392,616	14,392,616
2029	0	0	0	0	0	0	0	6,375,000	171,328	7,395,000	443,700	14,385,028	14,385,028
	<u>\$ 74,578,000</u>	<u>\$ 212,930,000</u>	<u>\$ 141,987,660</u>	<u>\$ 51,810,000</u>	<u>\$ 51,269,099</u>	<u>\$ 80,000,000</u>	<u>\$ 73,331,400</u>	<u>\$ 100,000,000</u>	<u>\$ 99,158,383</u>	<u>\$ 110,000,000</u>	<u>\$ 124,121,988</u>	<u>\$ 1,044,608,529</u>	<u>\$ 1,119,186,529</u>

Seattle Public Utilities

Administrative Structure

Seattle's water, drainage, wastewater, and solid waste utility services were consolidated administratively into a single entity known as Seattle Public Utilities ("SPU") in 1997. The consolidation provides ease of access, coordinated emergency response and simplicity of communications through one-call handling of service requests. Bringing several utility functions under a single management structure has reduced redundancy and unnecessary specialization.

Within SPU, there are four separate funds: the Water Fund, the Drainage and Wastewater Fund, the Solid Waste Fund, and the Engineering Services Fund. Each will remain as a separate fund at least until the outstanding 1993 bonds and certain bonds issued for the Drainage and Wastewater System have been redeemed or defeased. The financial structure and accounting procedures of SPU are designed to preserve fund integrity so that the appropriate revenue and cost streams for each of the utility systems and service functions are assigned to the proper fund.

Management

SPU consists of the Managing Director's Office and five Executive Branches, as follows:

- (i) Managing Director's Office: provides overall management and policy direction, and coordinates internal and external communication.
- (ii) Finance and Administration Branch: provides financial, human resources and information technology services to support SPU.
- (iii) Customer Service Branch: operates the call and walk-in centers for SPU and Seattle City Light customers, and manages SPU's meter reading, customer billing and audit functions.
- (iv) Resource Management Branch: develops SPU's long term resource plans; promotes environmental stewardship of natural resources; manages SPU's capital improvement program, watersheds and drinking water quality and supply programs; and coordinates SPU's community and environmental outreach.
- (v) Engineering Services Branch: provides design, project management, construction management, and other engineering support services to SPU; provides engineering services to other City departments and several regional agencies on a compensated basis.
- (vi) Field Operations Branch: operates, maintains, repairs, and constructs the City's water, sewer, drainage, and solid waste facilities and infrastructure; maintains warehousing facilities for SPU and Seattle Transportation; and manages SPU's Emergency Management and Response functions.

SPU is headed by a Managing Director, who administers SPU in accordance with policies established by the Mayor and the City Council. Brief biographies of the members of SPU's Executive Management Team follow:

Diana Gale, Managing Director. Ms. Gale became Managing Director of SPU when it was created in 1997. Previously, Ms. Gale served as the Superintendent of the Seattle Water Department. Prior to that she was the City's Director of the Office of Management and Budget (now the City's Budget Office). Before working as Budget Director, she was the Director of the Solid Waste Utility, where she initiated nationally recognized recycling and composting programs that have led Seattle to a 44 percent recycling rate. Previously, she was the Executive Director of the City's Legislative Department.

Ms. Gale is a member of the National Drinking Water Advisory Council and the Washington State Drinking Water Advisory Committee, the Chair of the Tailored Collaboration Committee (a research committee of the American Water Works Research Foundation), and on the board of Long Live the Kings (a local salmon restoration organization). Ms. Gale earned her Bachelor of Arts degree in history and political science from Wellesley College and her master's and doctorate degrees in urban planning from the University of Washington.

Debbie Broughton, Finance and Administration Branch Executive. Before joining SPU, Ms. Broughton was the Chief Administrative Officer for Kitsap County, where she was responsible for the general fund, utility fund and capital improvement budgets for the county. In addition, she was responsible for five divisions of Kitsap County government including Risk Management, Information Services, Facilities, Project Management, and Public Defense. She also spent seven years on the Seattle City Council staff as a financial and rate analyst and worked as an economist for a national consulting engineering firm. Ms. Broughton is a graduate of the University of Washington where she studied business administration and economics.

Pat Colson, Customer Service Branch Executive. Ms. Colson served most recently as the Water Department's Account Services Director and prior to that as Customer Assistance Manager. Before coming to the City, Ms. Colson managed a division of the State Department of Agriculture. Ms. Colson served on the faculty of Shoreline Community College, and has taught high school. She holds baccalaureate and master's degrees from the University of Washington.

Scott Haskins, Resource Management Branch Executive. Until his appointment as SPU branch executive, Mr. Haskins served as the Water Department's Deputy Superintendent, overseeing management, financial and administrative functions for the utility. He also has served as Finance Director for the Water Department. He is the past president of the Seattle Management Association, Chair of the West Coast Water Utilities Benchmarking Group and Chair of the Evergreen Chapter, American Society of Public Administration. Mr. Haskins currently is managing a City and consultant team effort to implement a \$100 million water filtration project through a design-build-operate contract. He holds a Bachelor of Arts degree in political science and a master's degree in public administration from the University of Washington.

Tom Tanner, Engineering Services Branch Executive. Mr. Tanner was appointed as Engineering Services Branch Executive in September 1998, and oversees engineering, design, project management, and construction management for SPU, as well as for Seattle City Light and the Seattle Transportation Department. Mr. Tanner has held numerous leadership positions in public works organizations, including appointments as Public Works Director for the Navy Public Works in Norfolk, Virginia; Public Works Director for Puget Sound Naval Shipyard; Chief Engineer for Navy facilities and utilities in Washington, Oregon, Montana, and Alaska; and Director of the Navy's Civil Engineering School in Port Hueneme, California. Mr. Tanner holds a Bachelor of Science in civil engineering from California State University and a master's degree in public works management from the University of Pittsburgh. He is a graduate of Northwestern University's Executive Management Program and is a registered professional civil engineer.

Raj Manhas, Field Operations Branch Executive. Mr. Manhas previously served as Deputy Superintendent for Capital Improvement Projects for the Water Department. Trained as an engineer, he has extensive experience in managing operations in both the private and public sector. Prior to joining the Water Department, he was the Seattle Parks and Recreation Department Director of Facilities Maintenance and Development. Mr. Manhas has a Bachelor of Science in engineering from Punjab University, India, and a Master of Science in industrial engineering from the University of Washington.

Employee Relations

SPU has approximately 1,200 employees, almost all of whom are members of the City's Employee Retirement System. The Retirement System requires SPU, like all City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension System."

Approximately 75 percent of SPU employees are represented by unions, including (i) the Joint Crafts Council which includes the International Association of Machinists and Aerospace Workers District Lodge 79 and 289, the International Brotherhood of Electrical Workers Local 46, the Painters District Council 5, Public Service and Industrial Employees Local 1239, and the International Union of Operating Engineers Local 302; (ii) the Washington State Council of County and City Employees Local 21; (iii) the United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry Local 32; (iv) the Pacific Northwest District Council of Carpenters; and (v) the International Federation of Professional and Technical Engineers, which represents the greatest number of SPU employees. The City has reached agreement with its major unions on the terms of new three-year contracts that are effective through December 31, 2001. SPU

considers relations with employees and the unions to be good. SPU has established a Joint Labor Management Committee to discuss potential labor issues and anticipates no serious problems in maintaining good labor relations.

Water System

SPU provides water service on a wholesale and retail basis to approximately three-fourths of the residences in King County with a water system originally developed by the Water Department. The fund structure of SPU is such that revenues generated by and costs associated with providing water service are accounted for exclusively in SPU's Water Fund.

General

The Water System was established in 1890 with the City's purchase of the Spring Hill Water Company and was later expanded by the development of the Cedar River as a source of water supply for the City. The Water System currently includes two watershed sources of supply east of the City and a small aquifer south of the City, as well as approximately 156 miles of supply mains and 460 million gallons ("MG") of storage capacity in transmission and distribution reservoirs. The Water System provides direct service to a population of approximately 592,000 and indirect service, through wholesale sales of water to other water distribution utilities outside the direct service area, to an additional population of approximately 683,000. The service area includes Seattle and portions of unincorporated King County served directly (the "direct service area"), and also areas served by 26 suburban water districts, municipalities and non-profit water associations (the "Purveyors"). The Purveyors purchase water from the City under long-term wholesale contracts for distribution to their own customers. The maps on the insides of the front and back covers show the service area, the location of major elements of the Water System and the locations of the Purveyors. Summary statistics for the Water System follow.

Water System Operating Statistics

	1994	1995	1996	1997	1998
Population Served					
Direct Service	584,120	585,734	586,757	588,919	592,232
Purveyors	<u>658,214</u>	<u>663,952</u>	<u>667,303</u>	<u>674,180</u>	<u>682,592</u>
Total Population Served	1,242,335	1,249,686	1,254,060	1,263,099	1,274,824
Water Sales Revenue (000's)					
Direct Service	\$ 43,061	\$ 45,499	\$ 48,823	\$ 50,448	\$ 55,659
Purveyors	<u>18,377</u>	<u>18,794</u>	<u>18,885</u>	<u>20,248</u>	<u>25,843</u>
Total Water Revenue	\$ 61,438	\$ 64,293	\$ 67,708	\$ 70,696	\$ 81,502
Billed Water Use (MG)					
Direct Service	26,882	26,307	25,830	25,261	25,987
Purveyors	<u>24,071</u>	<u>23,945</u>	<u>24,065</u>	<u>23,540</u>	<u>24,792</u>
Total Billed Use	50,952	50,252	49,896	48,801	50,778
Operating Costs/MG	977	1,037	1,141	1,150	1,376
Gallons Used/Day/Capita	112	110	109	106	109
Direct Service Meters in Use	174,193	174,672	174,987	175,297	175,888

Comprehensive Planning

The Seattle Comprehensive Water System Plan (the “Water Plan”) is the 20-year comprehensive plan for the Water System. The Water Plan was approved by the City and County Councils in 1993 and by the State Department of Health (“DOH”) in 1995.

The Water Plan provides guidance for planning and operating the Water System, and contains objectives for the next six years in the areas of water quality and maintenance and rehabilitation. Policy direction is also provided in the areas of water conservation and supply planning.

A Water System Plan Update will be prepared, and is expected to be approved by the City and County Councils, in 2000. This update will focus on the maintenance and operation of the Water System.

Water Supply

The Water System’s two surface water supply diversions are located on the Cedar River and on the South Fork of the Tolt River, each approximately 25 miles east of Seattle. The watershed areas upstream of the water supply intakes on these two rivers consist of approximately 104,000 acres of forest land in the Cascade Mountains of western Washington. Rainfall in the watersheds averages in excess of 100 inches annually. The snow pack at higher elevations averages five feet per year. Raw water storage capacity is 84,000 acre feet in the Cedar River Watershed and 56,000 acre feet in the Tolt River Watershed.

The City has diverted water from the Cedar River for use by the Water System since 1902. The City acquired this right by purchase, riparian right, appropriation, and other applicable laws. This claim of water rights, its relationship to instream flow requirements and the effect of the City’s diversion dam in blocking passage of anadromous fish all have been the subject of intermittent discussions among the City, the State and the Muckleshoot Indian Tribe.

To provide greater long term certainty for its Cedar River water supply operations and to minimize the possibility of future protracted litigation, SPU is negotiating the terms of a Habitat Conservation Plan (the “HCP”) with the U.S. Fish and Wildlife Service, National Marine Fisheries Service, the Corps of Engineers, and Washington State Departments of Fisheries and Wildlife and of Ecology. The goal of the negotiations is the settlement of interrelated issues involving fishery mitigation, watershed restoration and instream flow requirements. An Agreement in Principle was signed by the parties in 1997 and it is expected that the HCP will be finalized and approved in late 1999 or early 2000. Preliminary estimates put the present value of the operating and capital costs of the HCP over the next 50 years at \$83.4 million. Capital costs of the HCP over the next six years are estimated to be \$36.3 million. See “Capital Improvement Program” and “Endangered Species Act and Regional Needs Assessment.”

The City’s water rights on the South Fork Tolt River were established by permits for water storage and water diversion granted by the State in 1957, with a priority date of July 14, 1936. These water rights remain in permit status. In 1989, the Federal Energy Regulatory Commission granted a license to City Light to build a hydroelectric power plant on the South Fork of the Tolt River, resulting in modifications to the terms of the original water permits. The project was completed in 1996, and in 1997, City Light documented the full beneficial use of the water needed for the hydropower plant and received a certificate of water right.

On an aquifer located south of Seattle and immediately north of the Seattle-Tacoma International Airport, the City has developed three supply wells with a combined capacity of 10 million gallons per day (“MGD”) to augment the City’s surface water supply. The feasibility of recharging the aquifer with surplus winter-spring flows from the Cedar River has been tested successfully. The wells have been operated under temporary permits. The City has applied for permits which can be converted into water rights certificates if full beneficial use of the capability of the wells is demonstrated.

In addition to the surface water supply diversions and the aquifer, the City has two barge-mounted pumping plants on Chester Morse Lake for use in the event of droughts. Each plant has the capacity to pump up to 120 MGD of high quality water from below the lowest natural outlet of the lake. Both pumping plants are

securely anchored in a protective cove of Chester Morse Lake and are ready to be used during a future water shortage, if needed.

The administration of water rights in Washington is a matter of ongoing development and debate in the State Legislature and the courts.

Future Water Supply

At present, SPU has adequate supply resources to meet Water System demands under a wide range of weather conditions. Providing sufficient water during the summer, when demand is 75 percent higher than during the winter, is the major challenge as the Water System depends on seasonal storage to meet that demand. Existing sources of supply owned by the City provide an average annual firm yield of 160 MGD. Demand in the service area averaged 150 MGD in 1998. The yield of the South Fork Tolt water supply has been limited by turbidity events that restrict reservoir drawdowns. The City currently is developing a filtration plant to treat the Tolt water supply, which will mitigate this restriction. As an incidental benefit of the filtration plant, total system yield will increase by approximately 11 MGD when the plant is completed, expected to be in 2000.

Current forecasts of demand and supply indicate that a new primary source of supply will not be needed until sometime between 2017 and 2022, depending on the extent of implementation of conservation programs. This projection is based on an underlying demand growth of about 1.1 percent per year (excluding attenuation of demand by past and future conservation efforts) and the cumulative effects of past, current and planned conservation programs. As of 1996, conservation efforts in the form of retrofit programs and revised plumbing codes are estimated to have reduced demand by 11 MGD. These programs are expected to save an additional 12 MGD by 2014. In addition, the one percent conservation program initiated in 1999 is expected to reduce demands further by eight to 19 MGD over the next ten years. See “Capital Improvement Program—Water Supply.”

SPU is actively engaged in the evaluation of new sources of supply and conservation programs to meet the projected growth within the existing service area, to serve as a hedge against potential reduction of water diversions to support environmental and related objectives, and to serve water agencies within the region that presently are not Purveyors but might be added to the Water System. Several primary incremental water resources have been identified, including (i) construction of a connection to the City of Tacoma's water system, the North Branch of the Tacoma Second Supply Project (the “North Branch”), (ii) development of the Snoqualmie River Valley/North Bend Aquifer, (iii) development of a new source of supply at the North Fork Tolt River, (iv) installation of a permanent pumping plant at Chester Morse Lake, (v) additional drawdowns of the South Fork of the Tolt River, (vi) drawdown of Lake Youngs, which stores treated water from the Cedar River, for water supply, and (vii) additional conservation.

The North Branch would link the two regional water systems and could be available to the Water System as early as 2004. In the last several years, Seattle and Tacoma have been evaluating the possible water supply and environmental benefits of operating the two systems jointly. As currently contemplated, the North Branch would allow the region to utilize fully Tacoma's existing water rights and would provide the Water System with approximately 14 MGD of supply. Seattle's expected share of the estimated \$250 million project cost is 33 percent.

Endangered Species Act and Regional Needs Assessment

On March 28, 1999, the National Marine Fisheries Service (“NMFS”) listed the Puget Sound chinook salmon as “threatened with extinction”. The full implications of this listing for the Water System are difficult to predict because of many legal and scientific uncertainties associated with the application of the Endangered Species Act (“ESA”) to water supply operations. The City and other members of a tri-county organization made up of King, Pierce and Snohomish Counties, the cities of Tacoma, Everett, Bellevue, and Seattle and tribal, business and environmental representatives have been working with NMFS to determine how the ESA will be implemented in the Puget Sound region.

In an effort to reduce uncertainty with regard to its largest water supply source, the Cedar River, the City has developed a Habitat Conservation Plan outlining the measures it proposes to take to minimize and mitigate

potential impacts. These measures include commitments to instream flow levels that have been tentatively endorsed by both federal and State resource agencies. The Water System's estimated firm yield would not be adversely impacted by the proposed flow commitments. In 1997, an Agreement in Principle was signed among the City, the United States (represented by the U.S. Fish and Wildlife Service, NMFS and the U.S. Army Corps of Engineers) and the State of Washington (represented by the Department of Fish and Wildlife and the Department of Ecology). The City and the responsible federal agencies are preparing to issue final environmental review documents. If the HCP is approved (which is expected in late 1999 or early 2000), the City would be granted an incidental take permit. This permit would protect the City from ESA liability resulting from potential impacts of the Water System's Cedar operations on chinook salmon, as well as bull trout (which are expected to be listed in the near future) and approximately 80 other species of anadromous fish known to be present and potentially affected. Litigation over the adequacy of the environmental review documents, the HCP or related matters remains a possibility. It is not anticipated such litigation would alter the Water System's yield from the Cedar, although the outcome is uncertain.

The second major Water System supply is drawn from the South Fork Tolt, using a dam which, unlike the one on the Cedar, is situated above a natural fish barrier. Streamflow levels downstream from the dam are affected by dam operations and water diversions, with potential impacts on chinook salmon. The City is party to the 1988 Tolt Settlement Agreement, a partnership between the State, tribes and federal agencies which includes commitments for streamflows and habitat improvements that were intended to mitigate for impacts caused by the City's water supply and power generation operations. The implications of the chinook listing for the Tolt supply remain uncertain because, although other interested parties and agencies believe the flows are adequate for fish protection, NMFS was not a party to the settlement and has not made any determination as to their adequacy under the ESA. The City will attempt to resolve this uncertainty through one of the alternative mechanisms available under the ESA. At this point it is uncertain which mechanism will be used, how long it will take and whether additional mitigation will be required. However, it is anticipated that firm yield will not be affected.

It is likely that other activities will be affected by the ESA. Although Water System facility construction and maintenance activities are already under considerable environmental scrutiny, it can be anticipated that at a minimum there will be delays in permitting, particularly over the next few months while federal, State and local agencies continue to sort out their respective roles and expectations. The extent to which additional costs will be incurred for mitigation specifically related to ESA is unknown.

Listings of other fish, particularly bull trout, can be anticipated. As noted, liability protection through the Cedar River HCP and incidental take permit would cover bull trout. Since it is unknown whether bull trout are present in the Tolt, the impact of the bull trout listing on Tolt and other Water System operations is unknown.

The City and SPU anticipate that additional funding will be needed to support programs and projects to address fish and habitat restoration requirements associated with the ESA listings of chinook salmon and bull trout. Funding for these projects and programs probably will come from a variety of sources including City water rates, drainage and wastewater rates and general fund moneys, taxes or fees imposed by other local jurisdictions and federal and State grants.

Transmission Facilities

The transmission facilities of the Water System consist of multiple primary transmission lines from the Cedar River, one transmission line from the Tolt River and a network of supply mains throughout the total service area. In all, there are approximately 153 miles of primarily concrete or steel pipelines ranging in diameter from 30 to 96 inches. A new 25.3-mile transmission line, Tolt Pipeline No. 2 ("Tolt 2"), is being constructed that will begin at the Tolt source and run parallel to and interconnect with the existing Tolt Pipeline No. 1 ("Tolt 1"). At the end of 1998, a total of 4.1 miles of the Tolt 2 pipeline had been completed. The total completed mileage is expected to increase to 10.4 miles by the end of 1999 and to 18.2 miles by the end of 2001. A 1.5-mile tieline to Tolt 1 is also under construction and is expected to be completed in 1999. The remaining 7.1-mile segment in the middle of the transmission line will not be constructed until at least 2005.

To assist in maintaining water flow to the distribution portion of the Water System, the transmission system includes (i) two regulating basins, the Tolt Regulating Basin (a raw water facility) and Lake Youngs, (ii) two compacted earth embankment, concrete-lined reservoirs (West Seattle with 68 MG of storage and Maple Leaf with 60 MG of storage), (iii) a 60 MG open concrete hopper bottom reservoir (Lake Forest), (iv) a 32 MG buried concrete storage reservoir (Eastside), (v) a 20 MG pre-stressed concrete, partially buried reservoir (Riverton Heights), and (vi) two 6.5 MG concrete tank-type storage reservoirs (Soos). There are seven pumping stations with a total rated capacity of 100,250 gallons per minute ("GPM") in the transmission system. Three additional joint pumping stations with a total capacity of 25,000 GPM have been installed on Purveyor taps to meet minimum hydraulic head commitments.

Following sudden ruptures in Tolt 1 in 1987 and 1988, a detailed engineering evaluation of the condition of the entire pipeline was conducted. This large pipeline, constructed between 1959 and 1961, delivers water from the South Fork Tolt River to the service area, and its operation is essential to meet summer water demands. As a result of the engineering evaluation, all but one mile of the central portion of Tolt 1 has been either rehabilitated by sliplining or replaced with steel pipe. Rehabilitation of the remaining mile of the defective pipeline will be undertaken in 2001.

The following table shows the hydraulic capacities of the primary transmission lines and the transmission regulating basins and storage facilities of the Water System.

<u>Facility</u>	<u>Capacity</u>
Transmission Lines (MGD):	
Cedar River	275
Tolt River	<u>85</u>
Total	360
Storage Facilities (MG):	
Lake Youngs*	4,812
Tolt Regulating Basin*	312
West Seattle Reservoir	68
Lake Forest Reservoir	60
Maple Leaf Reservoir	60
Eastside Reservoir	32
Riverton Heights Reservoir	20
Soos Reservoirs	<u>13</u>
Total	5,377

* Effective capacity under current operating guidelines is less than hydraulic capacity.

During the month of record maximum consumption, July 1985, the transmission pipelines delivered an average of 301 MGD.

Storage and Distribution

Storage of water within the distribution portion of the Water System is accomplished by eight reservoirs, built between 1901 and 1990, nine standpipes and seven elevated tanks with capacities as follows:

Distribution Capacity (MGs)	
Reservoirs	188
Standpipes	9
Elevated Tanks	<u>10</u>
Total	207

The storage and distribution facilities and conservation incentives have met the needs of the expanding population in the service area. Peak day consumption levels as high as 329 MG and 348 MG were recorded

on June 29, 1987 and July 15, 1970, respectively. However, in the last ten years, peak daily consumption has averaged about 258 MGD.

In the last decade, two studies have been conducted to evaluate leakage from the Water System. System-wide leakage is estimated at 3.1 MGD. Total uses of non-revenue producing water (leakage, system cleaning and flushing, fire fighting, and lake flushing) are estimated at 10 to 12 MGD, or about seven percent of total water usage.

SPU operates under storage guidelines promulgated by DOH. These guidelines specify distribution storage capacity of 200 gallons per residential household equivalent. Most neighborhoods within the direct service area are in compliance with these guidelines; improvements are scheduled to bring the remaining neighborhoods into compliance.

The distribution system consists of approximately 1,660 miles of predominantly cast iron and ductile iron pipe. Concrete and steel pipe have been employed also; the only asbestos cement pipe is in a distribution system in a City park. To assist in maintaining adequate pressure within the distribution system, there are 25 electric and hydraulic pumping stations with a total rated pumping capacity of 261.3 MGD. Construction of a new pumping station, Scenic Heights, was completed in 1997 and SPU plans to build a second new pumping station in Queen Anne to increase water pressure to this Seattle neighborhood.

Seismic Evaluations

In 1990, CYGNA Group completed a comprehensive review of the reliability of Water System facilities in the event of a severe earthquake. This detailed study of major pipelines, pumping stations, treatment plants, control centers, and tank-type distribution storage reservoirs analyzed the effects of (i) a magnitude 7.5 earthquake centered under a facility and (ii) a magnitude 8.25 subduction earthquake within 95 miles of a facility. An earlier study had analyzed the reliability of embankment-type reservoirs and had indicated a need for seismic improvements. A seismic analysis of the Tolt Dam and Regulating Basin, completed in 1993, indicated a need for improvements in the form of an upgrade of the Regulating Basin South Dam and the Tolt Reservoir intake. The South Dam upgrade was completed in 1995. Seismic improvements to the intake and spillway platform were completed in 1998. The combined cost of the improvements to the dam, spillway platform and intake was \$10 million.

Overall, Water System facilities generally are expected to remain operational in the event of a major earthquake. Damage sustained would be repaired on a priority basis. Most of the tank-type reservoirs, both elevated tanks and standpipes, are predicted to sustain some damage and leakage. Remedial work was initiated in 1993 as part of an overall seismic improvement program and is expected to be completed in 2007. A subsequent multi-year program to replace critical cast iron water mains with ductile iron pipe is planned. To further increase the seismic reliability of the Water System, this program also provides for some structural strengthening at many of the operating facilities, including the Water Operations Control Center. By the end of 1998, 14 of the 40 facilities needing upgrades, including the Operations Control Center, had been strengthened structurally. While the ultimate cost of the remedial work is uncertain, SPU believes that the projects and costs already included in the 1999-2004 Capital Improvement Program ("CIP") represent the major portion of the identified remedial program.

Water Quality

Water provided by the Water System is of high quality due to the protection of the Cedar and Tolt River Watersheds from contamination by development and unsupervised human activity. In addition, the three wells on the aquifer south of the City which provide a small portion of the City's water supply are deep and afford natural protection from contamination.

Disinfection with chlorine is the only treatment currently necessary for the City to meet public water supply disinfection requirements of the U.S. Environmental Protection Agency ("EPA") and DOH. In addition to chlorine, lime and soda ash (for corrosion control) and fluoride (for the prevention of dental caries) are added to the water supply. To help ensure continued compliance with drinking water standards and to maintain

water quality in the distribution system, SPU operates a water quality laboratory certified by DOH for bacteriological and chemical analyses.

To improve the quality of water provided by the Water System, the City is developing a 120 MGD filtration and ozonation treatment plant for the Tolt water supply. The facility is expected to total \$65 million in construction costs and to be in service in 2000. The Tolt source provides approximately one-third of the City's current supply and serves a population of 1.3 million people. The filtration and ozonation facility will improve water quality to a level beyond what is required by existing standards, and will satisfy the new requirements under the Interim Enhanced Surface Water Treatment Rule and the Disinfection Byproducts Rule that become effective in December 2001. The facility also will allow the reservoir to be operated in all weather conditions.

As a community water system, the Water System must comply with the requirements of the Safe Drinking Water Act of 1974, as amended in 1986 and 1996. Certain of these requirements are especially significant as they have the potential to impact the City's operation of both the open reservoirs and the two unfiltered surface water supplies on the Tolt and Cedar River Watersheds. Water quality regulations of particular significance are discussed below.

Lead and Copper. Lead ingested by humans has been a public health concern. Lead in water normally comes from plumbing materials, primarily from corrosion of lead solder used to connect copper pipes and from brass fixtures. SPU recognizes this as a potential problem and has been treating the water to reduce its corrosiveness since 1983. There is no lead or copper in the source water. No lead service lines have been installed in the Seattle distribution system. Seattle was the first municipality in the nation to ban the use of lead solder for use in plumbing systems. The steps taken in the last two decades to reduce the corrosiveness of its water have been successful in reducing lead levels at customer taps. In 1991, a federal lead action level was adopted for water systems which requires that 90 percent of selected high risk homes (those that contain copper plumbing with lead solder) have tap water with less than 15 parts per billion ("ppb") lead content. Monitoring of the high risk homes in Seattle in 1992 and 1997 revealed that at the 90th percentile, the lead content is slightly higher than 15 ppb, so the City is conducting a public education program to inform consumers of the risks of lead exposure and methods to reduce such exposure. A Bilateral Compliance Agreement has been negotiated by SPU with the DOH to address treatment optimization. Elements of the agreement are being implemented successfully.

Organic and Inorganic Chemicals. Watershed management is an important step in limiting exposure of the source water to organic contaminants. Monitoring for organic and inorganic chemicals is conducted in the source water, both prior to and following treatment, and in the distribution system. Asbestos is an inorganic contaminant in many water systems. EPA has instituted a monitoring program for asbestos fibers of a minimum length in raw water and in distribution systems, for water systems containing asbestos cement piping materials. Asbestos has been found to be occurring naturally in very low levels in the Water System's raw water, but the fiber size is less than that which is of concern to EPA.

Surface Water Treatment. The Surface Water Treatment Rule ("SWTR"), which was finalized by EPA in 1989, established filtration and disinfection requirements for public water systems using surface water sources. It also established criteria under which a public water system using surface water can avoid filtration. These criteria include (i) watershed protection and management, (ii) raw water quality, (iii) treatment efficiency and redundancy, and (iv) some aspects of distribution system water quality. SWTR was directed, in large part, at the control of *Giardia lamblia* and human viruses. *Giardia lamblia* is a known human pathogenic parasite which can be transmitted by many common watershed animals.

During 1992, water in the Water System exceeded the raw water fecal coliform filtration avoidance criteria of SWTR on the Cedar source during unusual drought conditions. Under a DOH directive, SPU completed a study of treatment options including filtration and the use of ozone, a stronger disinfectant. A treatment recommendation has been approved by DOH and EPA. The treatment recommendation is that SPU should install ozonation on the Cedar source, in a manner that allows for future addition of filtration facilities if it becomes necessary or appropriate. As part of the treatment improvements, SPU would locate the primary

point of ozonation downstream of the Lake Youngs Reservoir. Construction of the ozonation facility is expected to be completed in 2004. No commitment to install filtration has been made.

The Interim Enhanced Surface Water Treatment Rule was promulgated by EPA in December 1998. Many of the provisions of this new rule apply only to water suppliers already using filtration to treat their water. Unfiltered systems, like Seattle's, are required to extend their watershed control programs to include control measures for the pathogen *Cryptosporidium* wherever control measures for *Giardia lamblia* already are included.

Stage 1 of the Disinfection Byproducts Rule, also promulgated by EPA in December 1998, sets more stringent limits for disinfection by-products, effective in the year 2001. Water from the Water System's Cedar source already meets these more stringent limits, and the filtration and ozonation facility being constructed on the Tolt source will allow the Water System to meet the more stringent limits on both sources by the time the new limits go into effect. If a water supplier's treated water has concentrations of disinfection by-products that are greater than 80 percent of the new limits, the supplier also is required to complete benchmarking studies to document the level of microbial protection provided by current treatment, in order to ensure there is no "backsliding" as suppliers make treatment changes to meet the new disinfection by-product limits. SPU will be completing benchmarking studies on its Tolt source, even though the new treatment facilities not only will reduce disinfection by-product concentrations but also will improve microbial protection.

The 1994 revisions to DOH drinking water regulations required the development of a plan to cover its open reservoirs. The Water System includes three covered transmission reservoirs, three covered distribution reservoirs and nine open distribution reservoirs. Open reservoirs currently are operated under an agreement with DOH which provides stringent conditions for security and maintenance. The Open Reservoir Covering Plan was approved by DOH in early 1996; it includes both floating covers and structural concrete covers with the choice based on the circumstance of each individual reservoir. Covering is scheduled at the City's Bitter Lake, Lake Forest Park and Lincoln reservoirs, at an estimated total cost of \$22 million.

Watershed Management Policies

SPU carries out programs of watershed resource management, fire protection and the protection of water resources within the Cedar River and South Fork Tolt River Watersheds. City Light also operates a small hydroelectric plant in the Cedar River Watershed. Timber harvesting and related activities within the watersheds have been governed by watershed management policies adopted by City ordinance and also by operating agreements among the City and other landowners.

Land development impacts and more stringent regulatory standards have made ownership of the watersheds an increasingly important element of SPU's overall strategy to preserve and enhance water quality. Source protection is an essential element of SPU's water quality program, along with planned and potential changes in water treatment.

Following major land exchanges in 1996 and 1997, the City consolidated its ownership of the 141-square-mile Cedar River Watershed and increased its ownership of the 21-square-mile South Fork Tolt River Watershed to 70 percent. The Cedar River Watershed land exchange was made possible because the City had acquired more than 17,500 acres of land within National Forest boundaries throughout the State to trade with the U.S. Forest Service ("USFS") for its remaining Cedar River Watershed holdings. In 1992, Congress adopted the Cedar River Watershed Land Exchange Act establishing key terms of the exchange, and the exchange was concluded in 1996.

Consolidated ownership of the Cedar River basin has resulted in strengthening forest management, wildlife and other programs that are based upon comprehensive management policies adopted in 1989 to guide the secondary uses of the watershed. The management policies for the Cedar River Watershed provided for selective harvest of second growth timber, with revenues generated from timber sales dedicated to the acquisition of lands and habitat within the watershed. In the past, such harvest activities have generated revenues of approximately \$1 million per year. In adopting the Habitat Conservation Plan, the City has decided to end commercial timber harvesting in the Cedar River Watershed.

The USFS, which owns the remaining 32 percent of the South Fork Tolt River Watershed, is essentially inactive on that property and has no current plans to harvest timber there. See “Water Supply.”

Purveyor Contracts and Regional Governance

Approximately 30 percent of water sales revenue is derived from sales to 26 Purveyors. In 1982, the City entered into 30-year water supply contracts with the Purveyors, which purchase over 99 percent of the wholesale water presently sold by the City. The contracts obligate the City to meet the Purveyors’ demand for water (except in emergency conditions) and provide the City with the long-term commitments requisite to investing in future Water System expansions to serve the Purveyors.

In 1994, the City and 24 of the Purveyors signed a contract amendment in which those Purveyors agreed to accept a larger share of the cost of conservation programs and to allow the City to continue to recover, through its wholesale rates, a prorated share of the cost of rehabilitating the Tolt River Pipeline.

At present, there are no competing water systems in the service area. From time to time there have been discussions by some of the Purveyors about developing independent systems with their own sources of supply. If any Purveyor decides to develop alternative sources and leave the Water System, the withdrawing party must give five years’ notice and hold harmless the City and remaining Purveyors from any increased capital and operating costs allocated to them as a result of such withdrawal.

Since 1993, four agreements of principles concerning future regional water governance have been signed by members of three caucuses representing Seattle, the region’s suburban cities and certain King County water districts. Most of those cities and water districts currently purchase water as Purveyors. The agreements envision the creation of a new entity to take over the responsibility of supplying the growth needs of the existing Purveyors as well as other wholesalers not in the current service area. Purveyors who join the new entity would release the City from its current contractual responsibilities to them. The new entity would buy water from the Water System under a new contract on a take-or-pay basis. SPU expects that it would continue to receive sufficient revenue under the new contract to repay debt issued to finance the facilities that serve the Purveyors. Purveyors representing about 80 percent of total Purveyor purchases from the City have joined the Interim Water Group (the “IWG”), an organization transitional to the formation of the new entity. This group is participating with the City in negotiations with Tacoma for the North Branch and has been negotiating with the City on a water sales contract. In May 1998 the City and the IWG completed a draft water sales contract, which the IWG distributed to its members for review and comment. Purveyors are to notify the City by November 15, 1999, of their intention to sign the proposed water sales contract.

The following table lists revenues generated by water sales to individual Purveyors for 1998.

1998 Water Sales to Purveyors

<u>Purveyor</u>	<u>Consumption (ccf)</u>	<u>Revenue</u>
Bellevue	8,254,911	\$ 6,473,825
Highline	2,982,876	1,526,815
Kirkland	2,920,755	2,120,217
Northshore	2,872,274	2,295,289
Woodinville	2,189,506	2,514,322
Soos Creek	2,076,737	1,873,987
Water District #20	1,574,917	1,071,034
Mercer Island	1,175,902	648,029
Tukwila	1,143,486	702,898
Coal Creek	1,101,548	1,102,176
Shoreline	1,047,211	549,355
Cedar River	925,231	1,051,029
Bothell	731,200	846,309
Water District #90	718,975	542,488
Water District #125	698,405	506,538
Water District #49	689,310	398,288
Olympic View	648,842	384,129
Other Purveyors	<u>1,391,749</u>	<u>1,163,559</u>
Total	<u>33,143,835</u>	<u>\$ 25,770,289</u>

Major Retail Water Users

The following table lists the Water System's ten largest retail water users in 1998. As there are no major water-intensive users in the service area, revenues from this group were less than five percent of total operating revenues in 1998.

1998 Major Water Accounts

<u>Company</u>	<u>Consumption (ccf)</u>	<u>Revenue</u>
University of Washington	1,044,138	\$ 1,155,913
Port of Seattle	518,759	672,974
Seattle Housing Authority	571,139	634,972
Stroh's Rainier Brewery *	319,634	344,917
The Boeing Company	218,571	297,009
Birmingham Steel	202,361	214,082
Todd Shipyards	187,300	213,129
King County -METRO	183,536	205,350
Seattle Steam	196,623	178,207
Swedish Medical Center	<u>127,957</u>	<u>157,924</u>
Total	<u>3,570,018</u>	<u>\$4,074,477</u>

* Stroh's Rainier Brewery closed in July 1999; the net impact of the closure in 1999 is estimated to be \$175,000..

Water Rates

Establishment of Rates. Water rates are proposed by the Mayor, reviewed by the Council and adopted by the Mayor and Council after public hearings. The City is not subject to the rate-making jurisdiction of the Washington Utilities and Transportation Commission or any other State or federal agency.

Initiative 695. The Secretary of State has certified Washington State Initiative Measure No. 695 ("I-695") to be placed on the November 2, 1999, general election ballot. Among other things, I-695 would require voter

approval for any increase in taxes, impact fees, permit fees, or any “monetary charge” imposed by the State or local governments, including the City. It cannot be predicted whether I-695 will be approved by the voters, nor can the extent of the measure’s impacts on the City be estimated. If approved by the State’s voters, many aspects of I-695 may be subject to interpretation by the courts, including the meaning of the term “monetary charge,” which may include utility rates. If I-695 is approved and is determined to apply to utility rates, the projected rate increases and projected operating results of the Water System would change. The stated effective date of I-695 is January 1, 2000.

Current Rates. The current water rates went into effect January 1, 1999, and will provide an estimated 10.5 percent increase in water sales revenue in 1999 relative to rates in effect in 1998. The rates are seasonally differentiated; the summer residential rate has two blocks with monthly usage above 500 cubic feet charged at a higher rate.

Seattle Water System 1999 Monthly Water Rates			
	<u>Residential (1)</u>	<u>Commercial (1)</u>	<u>Purveyor</u>
Commodity Charge (\$ per ccf)			
Winter (8 months)	\$ 1.60	\$ 0.71	\$ 0.44
Summer			
Up to 500 cf	1.60	2.01	1.12
Over 500 cf	2.53	2.01	1.12
Growth charge (\$/ccf)(2)			0.50
Basic Service Charge (3) (\$ per month)			
3/4"	\$ 3.30	\$ 3.30	NA
1"	5.30	5.30	\$45.00
1-1/2"	10.30	10.30	50.00
2"	16.30	16.30	55.00
4"	50.00	50.00	65.00

- (1) Direct service rates to customers outside the City limits are 14 percent higher.
- (2) An individual Purveyor pays a growth charge on any purchases in excess of purchases in the base period (1979–81).
- (3) The Basic Service Charge is based on the size of the customer’s meter. Rates for larger meters are not shown.

Rates to Purveyors served through master meters are established by the Purveyor contracts. SPU meters the peak instantaneous flow rate of Purveyors as a means of penalizing excessive peak demand on the Water System through a charge based on the equivalent financing cost of providing peak-hour storage. The proceeds of this charge are used to reduce revenue requirements when establishing wholesale rates.

Rate Comparisons. Seattle’s water rates are comparable to other cities of its size. In the table below, monthly bills are displayed for a sample of cities throughout the U.S. Compared to the average of this sample, Seattle’s residential bills are somewhat higher than average and its commercial/industrial bills are somewhat lower.

**Monthly Water Bill National Comparisons
(1998 Rates)**

<u>City</u>	<u>State</u>	<u>Residential</u>		<u>Commercial (500 ccf/mo)</u>	<u>Industrial (15,000 ccf/mo)</u>
		<u>(5 ccf/mo)</u>	<u>(10 ccf/mo)</u>		
Austin	Texas	\$ 9.21	\$ 17.12	\$ 850	\$ 23,167
Boston	Massachusetts	9.96	19.92	1,008	30,465
Columbus	Ohio	6.81	12.25	466	10,960
Dallas	Texas	6.53	13.18	509	11,369
Indianapolis	Indiana	13.35	19.50	555	8,674
Jacksonville	Florida	12.49	15.68	355	9,810
Los Angeles	California	7.70	15.40	621	18,371
New Orleans	Louisiana	10.80	18.51	707	16,488
Philadelphia	Pennsylvania	8.77	14.85	485	12,504
Saint Louis	Missouri	9.31	14.21	444	10,799
San Antonio	Texas	7.60	10.07	284	8,398
San Diego	California	12.95	19.20	771	22,732
San Francisco	California	9.70	16.00	655	19,101
Seattle	Washington	10.50	19.43	521	15,310
Average		\$ 9.69	\$ 16.17	\$ 611	\$ 16,135

Source: MWRA Advisory Board "Annual Water & Sewer Retail Rate Survey", November 1998 and Memphis Light, Gas and Water Division, "1998 Utility Bill Comparisons"

The following table shows 1998 water bill rates for Seattle compared to other cities in the region.

**Regional Comparisons
(1998 Rates)**

<u>City</u>	<u>State</u>	<u>Residential</u>		<u>Commercial (500 ccf/mo)</u>	<u>Industrial (15,000 ccf/mo)</u>
		<u>(5 ccf/mo)</u>	<u>(10 ccf/mo)</u>		
Bellevue	Washington	\$ 12.98	\$ 19.43	\$783	\$ 22,898
Everett	Washington	15.25	16.62	452	7,862
Portland	Oregon	10.29	14.89	483	13,913
Seattle	Washington	10.50	19.43	521	15,310
Tacoma	Washington	10.64	13.79	411	11,099
Average		\$ 11.93	\$ 16.83	\$530	\$ 14,216

Source: SPU Survey

Billing. SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts through the Combined Utility Billing System ("CUBS"), which now complies with Year 2000 standards. See "Year 2000 Readiness—Billing."

Currently customers receive a combined utility bill from CUBS that itemizes amounts due for water, wastewater and solid waste services. Payments received from the combined utility bills are allocated to the appropriate funds. If a payment received from a customer is insufficient to cover the total amount due and payable under the combined utility bill, that payment is credited first to the Solid Waste Fund. The balance of the payment is transferred to the Drainage and Wastewater Fund and then, if funds are available, to the Water Fund. If an account is 33 days past due, customers receive a water shut-off notice. By State law, water may be shut off when an account is delinquent. Delinquent charges bear interest at the rate of twelve percent per annum.

As a separate matter, SPU is planning to replace CUBS with a new billing system which is expected to be operating by 2000.

Capital Improvement Program

Capital investments are guided by the Water Plan and a rolling six-year Capital Improvement Program which is developed within the framework of the Water Plan and included in the Capital Improvement Program ("CIP") of the City as a whole. See "Comprehensive Planning." The CIP and the Water Plan are the basic elements of the Plan of Additions, for which the Bonds are a partial funding source. The CIP identifies facility needs and financing for rehabilitation, enhancement and expansion of the Water System. The CIP is annually reviewed, revised and adopted by the Mayor and Council as part of the City's budget process.

The 1999-2004 CIP is organized into six program areas: (i) Water Infrastructure, (ii) Water Quality, (iii) Water Supply, (iv) Technology, (v) Other Agency Projects, and (vi) Projects in Development, as shown in the table below.

Water System 1999-2004 Capital Improvement Program (Amounts in Thousands)

Program Area	1999	2000	2001	2002	2003	2004	Six Year Total
Water Infrastructure	\$ 35,547	\$ 24,021	\$ 39,955	\$ 25,947	\$ 23,298	\$ 30,607	\$ 179,375
Water Quality	45,280	39,428	12,210	40,000	40,300	6,000	183,218
Water Supply	37,535	23,622	3,418	3,712	2,832	2,625	73,744
Technology	12,196	8,062	6,293	4,406	3,604	2,278	36,839
Other Agency Projects	3,016	2,340	750	1,350	650	650	8,756
Projects in Development	2,450	2,892	7,109	18,293	20,494	20,284	71,522
Total	\$ 136,024	\$ 100,365	\$ 69,735	93,708	91,178	62,444	\$ 553,454
Funding Sources							
Debt Financing							
Outstanding Bonds	\$ 97,057	\$ 30,443	\$ 0	\$ 0	\$ 0	\$ 0	\$ 127,500
The Bonds	0	45,356	54,908	9,736	0	0	110,000
Future Bonds	0	0	0	60,362	64,232	21,137	145,731
Internally Generated Funds	2,719	4,200	5,329	9,400	10,986	16,695	49,329
Grants and Reimbursements	6,264	4,534	4,586	4,641	4,699	4,745	29,469
Unspecified Funds*	29,984	15,832	4,912	9,569	11,261	19,867	91,425
Subtotal	\$ 136,024	\$ 100,365	\$ 69,735	\$ 93,708	\$ 91,178	\$ 62,444	\$ 553,454

* The amounts in the "Unspecified Funds" category are to account for the rate-setting practice of providing an amount less (usually 15 percent less) than full funding of the CIP to accommodate project schedule delays, scope changes or new revenue sources.

Water Infrastructure. Projects include efforts to rehabilitate or replace system components that have either exceeded their useful lives or are beyond repair, or to make improvements that extend the useful lives of assets. These projects include work on dams, pipelines, tanks, pump stations, and services/hydrants/taps, as well as improvements to buildings and data processing systems.

Water Quality. Projects are intended to protect water purity and to meet State and federal health regulations. Significant projects in this category include (i) the new 120 MGD filtration and ozonation facility on the Tolt supply, (ii) the development of the new Cedar River ozonation facility to assure ongoing compliance with water quality regulations, (iii) the new water quality laboratory designed to facilitate increased testing and monitoring requirements, and (iv) the Reservoir Improvement Program to cover and refurbish in-town reservoirs.

Water Supply. These projects will increase the supply of water, or reduce demand via conservation. The major project in this program area is the development of Tolt 2, which will add 35 MGD of transmission capacity. Further development of the Highline Wellfield is also planned. Conservation projects included in

the 1999-2004 CIP are in the areas of (i) commercial incentives, (ii) reuse and (iii) laundry efficiency. In 1999, a new water conservation initiative was launched, designed to reduce per capita consumption by one percent per year. See “Endangered Species Act and Regional Needs Assessment.”

Technology. Projects in this category, designed to increase efficiency and productivity, include plans to provide a new customer billing system and a new water supervisory control and data acquisition system to monitor and control water supply, transmission and distribution. Of the 37 projects in this category, only about ten percent (representing about ten percent of the planned expenditures) were created to solve existing Year 2000 problems (see “Year 2000 Readiness”). Since January 1998, SPU has followed procedures to ensure that the installation of new technology is Year 2000 compliant.

Other Agency Projects. These projects consist largely of reimbursable work performed for other agencies which is either required by the action of other agencies or undertaken because they are cost effective for the Water System given projects initiated by other agencies.

Projects in Development. These include projects whose scope or cost estimates are preliminary and subject to substantial change. Two large projects comprise this category: the North Branch and the Habitat Conservation Plan. The HCP involves a series of agreements on (i) endangered species protection, (ii) watershed restoration, (iii) fisheries mitigation, and (iv) water management.

Funding Sources. Of the \$553 million in water projects included in the 1999-2004 CIP, approximately \$100 million will be financed by the Bonds. SPU presently anticipates that an additional \$146 million of debt will be issued over the next six years to finance Water System capital improvements. Funding sources have been identified for approximately 83 percent of the six-year CIP. Funding sources for the remaining portion of the CIP will be identified when project scopes and cost estimates are more certain and as the Mayor and City Council make an affirmative decision to proceed with individual projects. Of the total of \$91 million in the “Unspecified Funds” category, \$52 million represents the North Branch, which is anticipated to be funded by an additional rate increase on wholesale sales.

The development of the 1999-2004 CIP balances financial capacity with the demands of rehabilitation, improvement, water quality, and expansion. The Water System is experiencing increasing demands in all these areas: (i) age is taking its toll on the infrastructure, (ii) higher water quality standards are requiring more water treatment and improvements to existing facilities and (iii) regional growth, which is predicted to add 38 MGD over the next 23 years, will require a new source of supply. In response, SPU has steadily expanded the Water System CIP, raised rates and increased its long term borrowing plans. In managing the expansion of the CIP, SPU has emphasized efficient project design and careful staging of improvements within the 20-year time frame of the Water Plan. For the 1999-2004 CIP, SPU expects the financial requirements for these projects to be met from (i) Net Revenue of the Water System, (ii) contributions in aid of construction, (iii) the proceeds of the Bonds, and (iv) the proceeds of Future Parity and Subordinate Lien Bonds, which are expected to provide funds for various improvements and for additions and replacements to and rehabilitation of the Water System.

Financial Policies

The Mayor and Council have established financial policies by resolution for SPU, including the Water System. In accordance with these policies, water rates are set to achieve generally positive net income and cash balances and a minimum debt service coverage ratio on fixed rate long-term Parity Bonds of 1.70 times annual debt service. . These financial policies are subject to change by the Mayor and the Council.

Financial Performance

Historical Operating Results. The table “Historical Operating Results” shows revenues and expenses of the Water System. The Water Fund has a planning target of 1.70 times debt service coverage (above the Coverage Requirement of 1.25 times), which it has achieved every year in the past five years. With the exception of 1997, net income was positive from 1994 to 1998. The negative position in 1997 appears to have been the result of one-time-only factors related to weather and accounting treatment, and not an indicator of an emerging trend.

Operating revenues are generated primarily from wholesale and retail water sales. Revenue growth has been boosted by rate increases of approximately 8.0 percent in 1994, 5.0 percent in 1995, 7.1 percent in 1996, 9.3 percent in 1997, and 9.3 percent in 1998. From 1993 to 1998, revenue has increased by 33.0 percent, all of which was attributable to rate increases as there was no demand growth during this period.

The Water System has been designed and maintained in a way to require a minimum of pumping and treatment, and is not reliant on outside sources to meet water demand. Productivity improvements and reallocation of resources have allowed the Water System to manage an increasing work load related to environmental, water quality and governance issues with modest increases in operating and maintenance expenses over the last five years.

Water System Historical Operating Results

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Operating Revenue	<u>\$ 62,605,515</u>	<u>\$ 65,400,593</u>	<u>\$ 68,940,665</u>	<u>\$ 71,956,360</u>	<u>\$ 82,847,279</u>
Water Sales	61,422,821	64,160,569	67,706,289	70,679,543	81,502,212
Other	1,182,694	1,240,024	1,234,376	1,276,817	1,345,067
Other Income	<u>\$ 3,103,578</u>	<u>\$ 4,606,144</u>	<u>\$ 3,203,733</u>	<u>\$ 3,404,670</u>	<u>\$ 2,945,726</u>
Interest Income - Other	2,120,655	1,184,706	1,874,013	2,576,790	2,485,622
Timber Income and Other, Net	982,923	3,421,438	1,329,720	827,880	460,104
Operating Expenses	<u>\$ 51,797,722</u>	<u>\$ 57,324,192</u>	<u>\$ 57,926,885</u>	<u>\$ 63,557,984</u>	<u>\$ 69,846,456</u>
Operation and Maintenance Expenses					
Expenses	32,061,388	35,708,980	34,734,803	37,018,782	42,740,762
Taxes other than City Taxes	3,195,509	2,506,699	2,639,223	2,695,227	3,041,004
Other Expenses					
City Taxes	4,231,866	4,455,688	4,754,270	4,942,896	5,447,946
Depreciation	12,308,959	14,652,825	15,798,589	18,901,079	18,616,744
Interest Expenses and Amortization of Debt Issue Costs and Net Discount	11,069,214	11,764,232	12,762,694	14,248,169	15,555,390
Net Income	\$ 2,842,157	\$ 918,313	\$ 1,454,819	\$ (2,445,123)	\$ 391,159
Contribution In Aid Of Construction	\$ 3,876,534	\$ 4,678,532	\$ 5,996,866	\$ 5,123,704	\$ 5,276,752
Transfer to/from Rate Stabilization Fund	\$ (2,800,000)	\$ 0	\$ 0	\$ 0	\$ 5,800,000
Accrued and Other Non-Revenue Bond Interest Expense	\$ (12,084)	\$ (485)	\$ 0	\$ 0	\$ (124,742)
Revenue Available for Debt Service (1)	\$ 31,540,814	\$ 36,470,075	\$ 40,767,238	\$ 40,770,725	\$ 50,944,336
Total Debt Service	<u>\$ 17,446,544</u>	<u>\$ 21,242,153</u>	<u>\$ 22,300,289</u>	<u>\$ 23,660,326</u>	<u>\$ 26,969,328</u>
Parity Lien Debt Service	17,446,544	20,743,145	20,745,345	22,036,925	25,491,770
Subordinate Lien Debt Service		499,008	1,554,944	1,623,401	1,477,558
Debt Service Coverage (DSC)	1.81	1.72	1.83	1.72	1.89
DSC Parity Lien	1.81	1.76	1.97	1.85	2.00
DSC Subordinate Lien		31.52	12.88	11.54	17.23

- (1) Revenue available for debt service = net income + contributions in aid of construction + interest expenses + City taxes + depreciation - ULID interest income +/- rate stabilization fund transfers. Under the City charter, City taxes are payable after payment of debt service.

Projected Operating Results. The table “Projected Operating Results” shows projected revenues and expenses for the near term (1999–2004). The Water Fund’s financial planning is built around financial guidelines relating to net income, debt service coverage and cash balances. Projections for the 1999–2004 period assume a 2.5 percent inflation rate with a 5.5 percent interest cost on long term bonds.

Revenues are based on the 10.5 percent adopted rate increase for 1999, a 14.0 percent rate increase in 2000 and 9.0 percent per year rate increases in the years 2001 through 2004. The Mayor and Council adopted a 10.5 percent rate increase (in 1998) for the year 2000, and subsequently have agreed to consider an additional 3.5 percent increase in 2000 to pay for HCP and ESA costs. The 9.0 percent increases in 2001 through 2004 are generally consistent with rate projections discussed with the Mayor and Council during the 1998 rate review. See “Water Rates—Initiative 695.”

Financial performance for net income and debt service coverage in 1999 is expected to be weaker than originally projected at the time rates were set because the cool, damp weather in the summer of 1999 depressed water sales by about \$5.0 million. Projected debt service coverage on Parity Bonds reaches a low point in 2001 because operating costs are increased in that year, when the Tolt Filtration Plant comes on-line.

The 1999–2004 CIP will require a higher than historical level of investment which is due, in large part, to the construction of a filtration plant, a second transmission line on the Tolt source and a new treatment facility on the Cedar source. In addition to the 1999A Bonds and the Bonds, SPU expects to issue approximately \$146 million in debt for the 1999–2004 Water System CIP. Annual debt service is expected to rise from \$33.0 million in 1999 to \$56.1 million in 2004.

Operating costs include routine expenditures for operating a water system of this scale. Water treatment costs currently are minimal, although they are expected to grow after the year 2000 as more extensive treatment methods are employed. SPU is not subject to unanticipated increases in water purchase costs as its own supplies of water are sufficient to meet demand in this period. Operating expenses are projected to grow at less than the rate of inflation through 2000 but will increase significantly after 2000 when the South Fork Tolt filtration plant is brought on-line. Thereafter, total operating expenses are expected to increase with the rate of inflation.

Efforts have been made to avoid rate spikes and to assure a relatively even rate of increase over the next six years. Projected rate increases are shown below. A 10.5 percent rate increase for 2000 was approved by ordinance of the Mayor and the Council in 1998. An additional increase in 2000 to bring the total increase to 14 percent will be proposed by SPU in late September 1999, for Mayor and Council action in November 1999.

Projected Water System Rate Increases*	
<u>Year</u>	
2000	14.0%
2001	9.0
2002	9.0
2003	9.0
2004	9.0

* Projected rate increases are measured by the percentage change in Water Sales Revenue resulting from the rate increase.

Long Term (1999–2020). The most significant factor in the Water System’s long term financial picture is its CIP. During the next 22 years, SPU must (i) rehabilitate the aging water distribution system, (ii) make seismic improvements at a few critical locations, (iii) acquire a new source of supply to meet regional growth, and (iv) make water quality improvements. This program is estimated to cost \$1.3 billion (in constant 1996 dollars). During this period, SPU expects to continue to rely on debt to finance much of the CIP, but not to the extent it will in the 1999–2004 period. Future bond financings over the next 22 years are estimated to total \$0.9 billion (1996 dollars).

Water System Projected Operating Results (1)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Operating Revenue	\$ 83,119,000	\$ 100,119,000	\$ 108,878,000	\$ 118,397,000	\$ 128,743,000	\$ 139,982,000
Water Sales	82,133,000	99,133,000	107,871,000	117,368,000	127,689,000	138,903,000
Other	986,000	986,000	1,007,000	1,029,000	1,054,000	1,079,000
Other Income	\$ 5,358,000	\$ 8,833,000	\$ 2,403,000	\$ 2,577,000	\$ 1,453,000	\$ 916,000
Interest Income	3,208,000	5,004,000	2,026,000	2,198,000	1,072,000	533,000
Land Sale Revenue	1,775,000	3,454,000				
Timber Income and Other, Net	-	-	-	-	-	-
Rentals	375,000	375,000	377,000	379,000	381,000	383,000
Operating Expenses	\$ 70,136,000	\$ 70,915,000	\$ 79,484,000	\$ 82,207,000	\$ 87,872,000	\$ 92,416,000
Expenses	41,221,000	41,453,000	43,991,000	45,190,000	49,221,000	50,463,000
City Taxes	5,648,000	6,760,000	7,354,000	7,997,000	8,695,000	9,453,000
Other Taxes	3,161,000	3,636,000	3,938,000	4,264,000	4,619,000	5,004,000
Depreciation	20,106,000	19,066,000	24,201,000	24,756,000	25,337,000	27,496,000
Interest Expense	\$ 17,798,000	\$ 25,499,000	\$ 28,900,000	\$ 31,264,000	\$ 30,754,000	\$ 32,523,000
Debt Service Interest Payments	20,997,000	30,062,000	29,359,000	30,392,000	32,180,000	33,348,000
Accrued Interest Expense and						
Amortization of Bond Issuance Expense	4,513,000	1,727,000	1,631,000	3,034,000	1,800,000	1,836,000
AFUDC (Capitalized Interest)	(7,712,000)	(6,290,000)	(2,090,000)	(2,162,000)	(3,226,000)	(2,661,000)
Net Income	\$ 543,000	\$ 12,538,000	\$ 2,897,000	\$ 7,503,000	\$ 11,570,000	\$ 15,959,000
Contribution In Aid Of Construction	\$ 6,264,000	\$ 4,534,000	\$ 4,586,000	\$ 4,641,000	\$ 4,699,000	\$ 4,745,000
Transfer To/From Rate Stabilization Fund	-	-	-	-	-	-
Revenue Available for Debt Service (2)	\$ 52,112,000	\$ 68,397,000	\$ 67,938,000	\$ 76,161,000	\$ 81,055,000	\$ 90,176,000
Total Debt Service	\$ 32,979,000	\$ 43,975,000	\$ 47,214,000	\$ 49,085,000	\$ 52,136,000	\$ 54,830,000
Parity Lien Debt Service	31,179,000	41,185,000	44,365,000	45,867,000	47,724,000	50,363,000
Subordinate Lien Debt Service	1,800,000	2,790,000	2,849,000	3,218,000	4,412,000	4,467,000
Debt Service Coverage (DSC)	1.58	1.56	1.44	1.55	1.55	1.64
DSC Parity Lien	1.67	1.66	1.53	1.66	1.70	1.79
DSC Subordinate Lien	11.63	9.75	8.27	9.41	7.55	8.91

- (1) Projected results assume rate increases described above in "Projected Operating Results."
- (2) Revenue available for debt service = net income + interest expenses + City taxes + depreciation + contributions in aid of construction +/- rate stabilization fund transfers. Under the City charter, City taxes are payable after payment of debt service. Expenses for 1999 include \$1.753 million in prior years' costs which are being expensed in 1999, so revenues available for coverage are augmented by \$1.753 million to reflect this non-cash item.

Year 2000 Readiness

General. Many computer systems have allocated only two digits to data fields where the “calendar year” is stored, on the assumption that the first two digits will be “19.” As a result, on Saturday, January 1, 2000, many types of computer hardware, microchip-embedded equipment (such as digital clocks and elevator control systems) and computer software applications around the world may “think” that it is Monday, January 1, 1900. Some computer systems which utilize or create projected data relating to dates could be affected by the Year 2000 issue well in advance of January 1, 2000.

SPU's Compliance Plan. Since 1996, SPU has been working to identify, assess and resolve Year 2000 issues affecting the computer systems, including embedded systems, that support water supply, drainage and wastewater and solid waste services. All but one of the identified Year 2000 problems have been corrected. The single remaining item is scheduled for completion in early October 1999. Certification testing for identified systems will be completed early in the fourth quarter of 1999. In addition to identifying systems that are not Year 2000-compliant and implementing replacement or repair strategies, SPU has developed contingency plans to ensure continuity of service.

Water System. The water supply system is primarily gravity-fed and hence capable of being run without sophisticated computer technology. To eliminate any Year 2000 impact on water distribution and treatment, SPU has reviewed every computer system for date functionality and is fixing or replacing any related system with a possible Year 2000 problem, including the implementation of a new laboratory information management system. All embedded systems, including those that monitor water treatment equipment, also have been examined. Pumps and valves can be monitored and operated manually, if necessary. SPU is rescheduling reservoir maintenance, filling reservoirs before January 1, 2000 and reviewing "on-call" staffing levels. Remediation has been completed on the Water System's Tolt Dam warning system (to alert downstream towns in the event of a dam failure) and the system is awaiting testing and verification.

Billing System. The water, sewer and solid waste Combined Utility Billing System was upgraded to repair specific Year 2000 problems and placed in production in the third quarter of 1998. Acceptance testing to ensure Year 2000 compliance was completed at that time. All hand-held devices and systems used by meter readers to record water meter readings were replaced in the first quarter of 1999 with vendor-certified software and hardware.

Summary. Based on the City of Seattle's Year 2000 Program Office assessment, completed at the end of the first quarter of 1999, SPU does not believe that the Year 2000 issues will result in a material adverse change in the business condition of the Water System or its ability to satisfy principal and interest payments on its bonds. However, the Year 2000 issue is a worldwide problem and SPU can make no assurances regarding the Year 2000 compliance status of systems and parties outside SPU's control. Furthermore, SPU cannot assess the potential effects of those systems' and parties' compliance on its financial position, results of operations and cash flows. However, SPU is taking precautions to insure continuation of all critical operations.

The City of Seattle

The following provides general information about the City.

Municipal Government

Incorporated in 1869, the City of Seattle, Washington is the largest city in the Pacific Northwest and is the county seat of King County (the “County”). The City's elected officials are a mayor, nine council members and a city attorney. These officials are elected at large to four-year terms. If an elected official were to resign from his or her position, that position would be filled by appointment by the Council and held by such appointee until filled by election.

The City operates four utilities funded by rates and charges: electric, water, drainage and wastewater, and solid waste. See “Seattle Public Utilities.”

Financial Management

In 1992, the City's financial management functions were consolidated as the Department of Finance, and a City Auditor was appointed for a six-year term. In 1997, the Departments of Finance, Personnel and Administrative Services were merged into the Executive Services Department ("ESD"). Financial management functions are performed within the Finance Division of ESD.

Dwight Dively is Director of ESD and of the Finance Division. Prior to the merger, Mr. Dively served as Director of the Department of Finance and, previously, as Policy Director for the Council. Mr. Dively is a graduate of Rose-Hulman Institute of Technology, holds a master's degree from Princeton University in public affairs and is a Ph.C. in civil engineering at the University of Washington.

Accounting. The accounting and reporting policies of the City conform to generally accepted accounting principles for municipal governments and are regulated by the State Auditor's Office, Division of Municipal Corporations, which maintains a resident staff at the City to perform a continual current audit as well as the annual post-fiscal year audit of City financial operations. The Finance Division of ESD maintains general supervision over financial transactions of all City funds.

Auditing. The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the laws and Constitution of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the Auditor's examinations are required to be filed in the office of the State Auditor and in the Finance Division of ESD. The City's Comprehensive Annual Financial Report may be obtained from ESD by calling (206) 684-8300.

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Division of ESD pursuant to State statute (Chapter 35.32A RCW). The proposed budget is submitted to the Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is from January 1 through December 31. The Council considers the proposed budget, holds public hearings on its contents and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The Council is required to adopt the budget at least 30 days before the beginning of the next fiscal year.

***Investments.* The information in this section does not pertain to pension funds, which are administered by the Seattle City Employees' Retirement System, and some debt issuance proceeds, administered, in some cases, by trustee service providers.**

All cash-related transactions for the City, including its utilities, are administered by the treasury unit of ESD (the "Treasury Division"). City cash is deposited into a single bank account and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing Council-approved policies, by the Treasury Division in the following securities:

- (i) U.S. Treasury and agency issues;
- (ii) bankers' acceptances sold on the secondary market;
- (iii) repurchase and reverse repurchase agreements, when structured with securities eligible for purchase and when executed under an approved master repurchase agreement with selected primary dealers; and
- (iv) commercial paper purchased in the secondary market which has received the highest ratings of at least two nationally recognized rating agencies.

State statutes, City ordinances and ESD policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies provide for quarterly and annual reports of the City's investment portfolio to the Finance Director, the Mayor and the Council. City investment policy is reviewed on an annual basis and any significant revisions are acknowledged by the Council. The City's investment operations are reviewed by the City Auditor and by the State Examiner.

As of July 31, 1999, the combined investment portfolios of the City totaled \$523.4 million at book value. The City's investment pool is constituted solely of City funds. The City does not invest any of its funds in other pools, with the exception of tax collection receipts initially held by the County and funds of the Seattle City Employees' Retirement System and the Deferred Compensation Plan. As of July 31, 1999, the year-to-date yield on the City's consolidated pool investments, on a cash and accrual basis, was 5.8 percent and the average maturity date of the portfolio was December 2001. Approximately 18 percent, or \$95.9 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years. Investments were allocated as follows:

U.S. Government and Agency securities	61.9%
Commercial paper	22.4
U.S. Treasury securities	10.1
Repurchase agreements	5.1
Mortgage-backed securities	1.5
Other	1.0
Reverse repurchase agreements	(1.9)

Risk Management

The City maintains \$25,000,000 liability insurance, with a \$2,500,000 self-insured retention for each occurrence. The City also maintains \$200,000,000 property insurance, with a \$100,000 deductible for each occurrence, on City-owned buildings with value greater than the deductible, unless insurance of at least equivalent value is provided by other parties. Workers compensation is insured to statutory limits, with a \$500,000 self-insured retention for each occurrence. In addition, insurance policies are purchased to cover loss of certain machinery and equipment.

Claims are paid, to the extent of the self-insured retention, from the Judgment and Claims Subfund, which is backed by the General Fund and the City's utility funds. As of December 31, 1998, the balance in the Judgment and Claims Subfund was \$6,025,273.

Pension System

Nearly all permanent non-uniformed City employees participate in the Seattle City Employees' Retirement System (the "Plan"), a single employer public employee retirement system. The payroll for City employees covered by the Plan for the year ended December 31, 1998, was \$341.5 million; total City payroll was \$541.2 million. Nearly all City employees are required to contribute 8.03 percent of their annual base salary to the Plan, and the City contributes an additional 8.03 percent. As of January 1, 1998, system assets exceeded the accrued actuarial liability, the actuarial present value of future benefits was \$1.593 billion, the actuarial present value of future normal costs for present members was \$433.5 million, and the actuarial value of assets available for benefits was \$1.225 billion. Combined employee and employer contributions to the Plan totaled approximately \$57.6 million for the year ending December 31, 1998.

Labor Relations

The City has 30 separate departments and offices with approximately 13,000 regular and temporary employees. Thirty different unions and 45 bargaining units represent approximately 75 percent of the City's regular employees. In the fall of 1998, the City completed negotiations with unions representing firefighters, Police Department management and the majority of the City's general workforce. These contracts extend through the end of 2000 or 2001, depending on the union involved. The City currently is negotiating with the Police Guild and two small bargaining units.

Year 2000

Many existing computer programs use only the last two digits to refer to a year. These programs may not recognize properly that certain years begin with "20" instead of "19". If not corrected, such programs could fail or create erroneous results when attempting to recognize dates after December 31, 1999.

The City is committed to ensuring that essential services will be supported beyond the year 2000, and has made the Year 2000 issue the top priority on the City's information technology agenda. The City has implemented a unified Year 2000 Program to coordinate the inventorying, prioritizing, assessing, resolving, testing, and contingency planning activities that have been initiated to address all major Year 2000 issues affecting City departments. In July 1999, the City replaced its old financial management system, which was not Year 2000-compliant, with a new system that accounts for all City fund disbursements and receipts and provides financial reporting information.

In addition, the City's ESD staff is contacting all City vendors to determine if they are Year 2000-compliant. Each department then will take responsibility for reviewing the contracts of non-compliant vendors and making any necessary alternative arrangements to acquire the goods and services needed.

Based solely on the assessments completed to date, the City does not believe that the Year 2000 issue will result in a material adverse change in its business condition or in its ability to satisfy principal and interest payment requirements on its bonds. However, the Year 2000 issue is a worldwide problem. The City can make no assurances regarding the Year 2000 compliance status of systems and parties outside the City's control, and the City cannot assess the potential effects of those systems' and parties' compliance on its financial position, results of operations and cash flows.

Demographic and Economic Information

King County together with Snohomish and Island Counties to the north constitute the Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the "Seattle PMSA"), which is the fourth-largest metropolitan center on the West Coast. The City of Seattle, encompassing 92 square miles, is the largest city in the Pacific Northwest and is the center of the County's economic activity. Of the State's population, nearly 30 percent reside in King County, and of the County's population, 33 percent live in the City.

In addition to Seattle, some of the principal cities in the Seattle PMSA include Bellevue, Federal Way, Kent, Redmond, and Shoreline in King County, and Everett and Lynnwood in Snohomish County. The City of Bothell spans both King and Snohomish Counties.

Population

The population trends of King County and the Seattle PMSA show continued growth at a rate higher than the City's, which reflects the greater availability of residential construction sites outside Seattle. The 1990 U.S. Census population and recent population estimates for the City, King County and the Seattle PMSA are as follows:

Year	Seattle	King County	Seattle PMSA
1998	539,700	1,665,800	2,306,400
1997	536,600	1,646,200	2,269,000
1996	534,700	1,628,800	2,237,200
1995	532,900	1,613,600	2,208,100
1994	531,400	1,599,500	2,183,900
1990*	516,259	1,507,319	1,972,961

* Source: U.S. Census

Source: *Washington State Office of Financial Management, Forecasting Division*

Per Capita Income

The following table presents per capita personal income (presented in 1996 dollars). The Seattle PMSA's per capita income has been consistently higher than the State's, and from 1993 through 1996 the rate of growth in the Seattle PMSA's per capita income outpaced the State's growth rate.

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>
Seattle PMSA	\$31,372	\$29,494	\$27,736	\$26,690	\$26,031
King County	34,440	32,205	30,054	28,855	28,102
State of Washington	25,277	23,974	22,806	22,168	21,515

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Building Permit Value

The table below lists the value of construction for which building permits have been issued by the City of Seattle. The value of public construction is not included in this table.

Building Permits							
Year	Single Family/Duplex		Multifamily		Commercial	Additions and Other	Total Value
	Units	Value	Units	Value		Value	
1998	792	\$ 104,653,000	2,777	\$ 227,014,000	\$ 377,366,000	\$ 439,806,000	\$ 1,148,839,000
1997	616	81,395,000	2,587	164,356,361	402,989,283	359,207,404	995,102,670
1996	534	68,875,607	2,172	180,328,584	119,856,907	295,180,203	664,241,301
1995	551	70,038,219	1,016	90,886,112	111,474,377	288,613,031	561,011,739
1994	484	54,250,837	1,104	83,972,549	224,872,867	254,522,561	617,618,814
1993	451	59,727,463	1,465	100,661,099	177,184,108	213,832,029	551,404,699

Source: City of Seattle Department of Construction and Land Use

Office Space Activity

According to the CB Commercial Real Estate Group, Seattle's central business district ("CBD") has over 26 million square feet of office space. The County's suburban communities have approximately 21 million square feet of office space for a greater Seattle total of 47 million square feet of office space. In 1989, voters approved a Citizens Alternative Plan ("CAP") initiative. Under the restrictions of CAP, construction in the Seattle CBD is limited to one million square feet per year from 1994 to 1999. CAP also places height and density restrictions on development throughout the Seattle CBD.

Commercial real estate vacancy rates in downtown Seattle at the end of 1998 were 5.3 percent, compared to about 5.0 percent at the beginning of the year. Almost a million square feet of new office space is under construction, with another five million square feet proposed for new construction. Office space in the CBD is renting for up to \$40 per square foot in 1999, compared to a high of \$30 per square foot in 1998.

Industry and Employment

The employment base of the Seattle PMSA is diversified, with strengths in the manufacturing, trade, services, and government sectors. In 1998, manufacturing comprised about 17 percent of the area's nonagricultural employment, approximately the same as 1997, with aircraft production comprising about eight percent of the total employment. In the non-manufacturing sectors, services was the largest sector with almost 29 percent of total employment; wholesale and retail trade comprised about 23 percent; and government, including education, comprised about 13 percent. The preliminary unemployment rate in the Seattle PMSA for 1998 was 3.1 percent, compared to 5.3 percent for the State as a whole.

The table below shows employment by sector and unemployment for the Seattle PMSA.

**Seattle-Bellevue-Everett PMSA
(King, Snohomish and Island Counties)
Civilian Labor Force and Nonagricultural Employment**

	Average Annual (1)				
	1994	1995	1996	1997	1998 (2)
Civilian Labor Force					
Employment	1,131,800	1,171,200	1,207,100	1,297,500	1,338,900
Unemployment	68,300	65,700	63,300	44,800	42,700
Total Civilian Labor Force	1,200,100	1,236,900	1,270,400	1,342,300	1,381,600
Unemployment Rate	5.7%	5.3%	5.0%	3.3%	3.1%
Nonagricultural Employment					
Manufacturing					
Aircraft and parts	89,300	77,800	83,500	101,100	107,900
Miscellaneous transportation equipment	8,200	9,100	8,500	8,800	9,200
Food products	15,700	16,600	17,300	17,000	15,700
Wood products and paper	12,800	12,600	12,600	12,400	12,200
Machinery and electrical	15,300	16,800	18,600	20,700	22,300
Instruments	10,600	10,500	10,900	11,800	12,200
Textiles, apparel and leather	4,600	4,700	4,700	5,100	5,000
Printing and publishing	13,900	13,900	14,300	14,100	14,000
Other manufacturing categories	25,300	25,900	26,500	27,800	29,900
Total manufacturing	195,700	187,900	196,900	218,800	228,400
Nonmanufacturing					
Contract construction	57,800	58,400	61,200	66,500	72,200
Transportation, communication and utilities	70,100	72,300	74,600	77,700	80,300
Wholesale and retail trade	277,800	287,800	294,600	304,000	316,600
Finance, insurance and real estate	75,700	73,500	74,900	76,700	81,200
Services	311,800	327,500	347,600	371,400	389,400
Government	168,700	172,000	175,100	178,100	182,400
Total nonmanufacturing	961,900	991,500	1,028,000	1,074,400	1,122,100
Total Nonagricultural Employment	1,158,300	1,180,000	1,225,500	1,293,900	1,351,100

(1) Columns may not add to totals due to rounding anomalies in the way average annual is calculated.

(2) Preliminary.

Source: Washington State Department of Employment Security

The following table presents employment data for major employers in the Puget Sound area, which is defined for the purposes of this section as King, Kitsap, Pierce, San Juan, Skagit, Snohomish, Thurston, and Whatcom Counties, Washington.

Puget Sound Area Major Employers	
<u>Employer</u>	<u>Number of Employees</u>
The Boeing Company	83,300
University of Washington	17,040
Microsoft	14,300
City of Seattle	13,000
Safeway	12,800
King County	12,000
Group Health Cooperative(1)	10,000
US Postal Service	9,700
Sisters of Providence Health	8,500
Fred Meyer (2)	6,300
US West Communications	6,200
Nordstrom	5,600
Quality Food Centers (2)	5,200
Alaska Air Group	4,900
Seattle School District No. 1	4,700
Costco Wholesale	4,600
Weyerhaeuser	4,500
The Bon Marche	4,500
Virginia Mason Medical Center (1)	4,400
Safeco	4,000
Paccar	3,900
Swedish Health Services	3,800
Target Stores	3,800
Albertson's	3,564
Sears Roebuck	2,700

(1) Group Health and Virginia Mason merged in 1996. The companies are coordinating functions, but still report separate employment figures.

(2) Fred Meyer acquired Quality Food Centers in January 1998, and then was acquired by Kroger in November 1998.

Sources: Puget Sound Business Journal, Book of Lists, 1999, and Individual Employers, January 1999.

Boeing remains the largest employer and aerospace continues to be an important part of the local economy. However, aerospace's impact has diminished in recent years with the growth experienced in other industries such as high technology.

Aerospace. The Boeing Company ("Boeing") is the world's largest manufacturer of commercial jetliners and military aircraft, and is the nation's largest NASA contractor, with customers in 145 countries, employees in more than 60 countries and operations in 27 states. Company revenues were \$22.7 billion in 1996, \$45.8 billion in 1997 and \$56.2 billion in 1998.

Since autumn of 1997, Boeing has been in the midst of a production rate buildup for its 7-series commercial aircraft and has experienced raw materials and parts shortages and productivity inefficiencies caused by adding thousands of new employees. A total of 375 commercial aircraft was delivered in 1997. In 1998 Boeing delivered a total of 563 commercial jetliners, exceeding the company's goal of 550 deliveries for the year. Boeing plans to deliver 620 jetliners in 1999 and 480 in 2000.

In December 1997, Boeing announced plans to reduce its workforce within its commercial airplane operations by 12,000 employees, mostly in Washington, through a combination of attrition and layoffs. In July 1998, the company announced that those job cuts would be delayed at least until the end of the year, to allow more time to streamline and accelerate the backlogged production process. As of September 1, 1999, Boeing had

203,800 employees nationwide, of which 83,300 work throughout the Puget Sound region at sites in Seattle, Bellevue, Everett, Renton, Kent, and Auburn. Between June 1998 and September 1999, a total of 18,600 jobs had been cut by Boeing. By the end of 2000, Boeing expects nationwide employment to drop by another 24,000 to 33,000 workers, as a result of anticipated decreases in the production rates of several aircraft lines attributed to the weakened Asian economy. In September 1999, Boeing finalized a three-year contract with its largest union, the International Association of Machinists and Aerospace Workers, which represents more than 44,000 hourly workers at Boeing facilities in Washington, Kansas and Oregon.

Boeing acquired the aerospace and weapons divisions of California-based Rockwell International Corporation in 1996. Those divisions manufacture space shuttles, B-1 bombers, strategic nuclear missile components, rocket engines, and satellites. Boeing purchased McDonnell Douglas, its only U.S. commercial airplane rival and the world's largest builder of military aircraft, for approximately \$16.3 billion in 1997. Since the acquisition, Boeing has canceled long-term production of McDonnell Douglas airliners and has announced plans to reduce by half the workforce at its headquarters in Long Beach, California. Boeing's rolling ten-year projection calls for reducing the production of jumbo-jets and focusing on smaller, more efficient planes such as the 737 and 717 series.

Boeing had the following cumulative order and delivery schedule of its current 7-series commercial aircraft as of August 31, 1999:

<u>Aircraft Type</u>	<u>Firm Orders To Date</u>	<u>Total Deliveries To Date</u>
777	429	235
767	872	759
757	967	881
747	1,304	1,223
737	4,329	3,472
727	1,831	1,831
717	115	0
707	<u>1,010</u>	<u>1,010</u>
Totals	10,744	9,113

Source: The Boeing Company

Boeing's role as a supplier of space launch services, offering orbital launches and affiliated products such as rocket engines and satellites, is expected to provide an increasing percentage of its revenues in 1999. Revenues from space launches and space station activities are projected to reach \$4.3 billion in 1999 and \$5.2 billion in 2000, or 11 percent of commercial jet revenues.

Boeing has completed three major expansion projects in the past several years. In 1993, Boeing completed a \$400 million skin and spar plant and a composite manufacturing center on 500 acres in Puyallup (Pierce County). In 1995, a 5.6 million square-foot assembly plant for the 777 jetliner was built in Everett (Snohomish County). In October 1998, Boeing moved into new facilities in Renton that house the headquarters for the commercial airplane group.

Other aerospace companies in the Puget Sound area contribute to the local economy's strength, including BF Goodrich Aerospace (about 2,500 employees in the area), Hexcel Structures & Interiors (about 1,300 employees in the area), and Allied-Signal Inc. Electronic & Avionic Systems, Eldec Corp. and Esterline Technologies (each with about 1,000 employees in the area).

High Technology. The Puget Sound area has experienced substantial development in high technology, electronics and computer-related manufacturing enterprises, particularly over the last decade. Between 1990 and 1996, the number of software jobs in the State grew at the rate of 17.8 percent per year, almost double the nationwide rate of 9.2 percent per year, and the majority of that growth took place in the Puget Sound area. In 1988 there were 800 software companies in the State; by 1997, that number had grown to 2,500. In 1997, software was a \$15 billion industry that employed 27,000 people in the State.

Microsoft, which is headquartered in Redmond, is the region's largest high technology employer with over 27,000 employees worldwide, including more than 14,000 in the Puget Sound region. Microsoft is a developer and manufacturer of computer operating systems and software. The company also has an on-line service which includes several magazines and access to the Internet. Microsoft and NBC together own and operate a cable-television station, MSNBC. Microsoft's fiscal year 1998 revenues exceeded \$14 billion, a 28 percent increase over fiscal year 1997 revenues. The United States government has commenced federal anti-trust litigation against Microsoft. The consequences of this litigation cannot be determined at this time.

Ranked according to 1997 revenues, the top five software companies in the Puget Sound area were Microsoft, Attachmate (enterprise strength software), Sierra On-line (interactive consumer software), Wall Data (connectivity and application software), and WRQ Inc. (connectivity software). Internet commerce companies in the Puget Sound area, ranked according to 1997 revenues, include Amazon.com (electronic commerce), Microsoft's Expedia.com (consumer travel), Internet Entertainment Group (various online services), Egghead.com (computer hardware and software), and InfoSpace.com (directory and information services).

Other high tech industries contribute to the diversity of employment and production in the Puget Sound area. These include biotechnology (the top five firms ranked by number of employees in 1998 are Immunex Corp., ZymoGenetics Inc., Icos Corp., Cell Therapeutics Inc., and Sanofi Diagnostics Pasteur), computer dealers (the top five dealers ranked by 1997 sales are En Pointe Technologies, R&D Industries, Computers & Applications, Technology Integration Group, and Inacom Northwest) and medical device manufacturers (the top five firms based on number of employees in the area are ATL Ultrasound Inc., Spacelabs Medical Inc., Physio-Control Corp., Optiva Corp., and SeaMed Corp.).

The area's universities and research institutions have supported the expansion of high tech industries. Other key factors which support continued growth include (i) the existing industry base, (ii) a well trained labor force, (iii) relatively low cost power, (iv) a progressive business climate, and (v) excellent transportation access to worldwide markets.

Transportation

Seattle is the western terminus of two east-west freeway systems, Interstate Route 90 and State Route 520, and is traversed by north-south Interstate Route 5 and State Route 99. The section of I-90 that connects Seattle with Eastside communities across Lake Washington was expanded to eight lanes in the early 1990s. The Washington State Ferry System provides transportation between Seattle and points across Puget Sound to the west.

Regional Transit. In May 1996, the Central Puget Sound Regional Transit Authority ("Sound Transit") adopted a ten-year regional transit system plan called Sound Move. The plan incorporates a mixture of high-occupancy vehicle ("HOV") express lanes, regional express bus routes, commuter rail, and light rail. In November 1996, voters in the three counties affected by Sound Move (King, Snohomish and Pierce Counties) approved a 0.4 percent increase in local sales taxes and a 0.3 percent increase in the local motor vehicle excise tax to provide part of Sound Move's funding.

Sound Transit has a ten-year budget of approximately \$5.1 billion for the period 1997 through 2006. The program includes (i) 23 miles of new electric light rail connecting various neighborhoods between Seattle and SeaTac Airport, as well as a separate line in Tacoma, (ii) 82 miles of commuter rail service along existing Burlington Northern Santa Fe railroad tracks between Everett, Seattle and Tacoma, (iii) more than 100 miles of HOV express lanes, (iv) 20 new regional express bus routes, and (v) region-wide coordination of schedules and fares among local and regional transit services.

In December 1998, Sound Transit released a draft environmental impact statement and preliminary route recommendations for the electric light rail system.

Airport Facilities. The Port of Seattle (the "Port") operates Seattle-Tacoma International Airport (the "Airport"), which is approximately ten miles south of the City in the city of SeaTac. The Airport is the 18th

busiest passenger airport and the 19th busiest cargo airport in the U.S. The Airport serves the air travel needs of a five-county area that includes King, Kitsap, Pierce, Snohomish, and Thurston Counties.

In 1998, the Airport had scheduled passenger service provided by 28 air carriers, including 15 major/national carriers, three commuter carriers and ten foreign flag carriers. In addition, 16 all-cargo carriers have scheduled cargo service at the Airport. The Airport has experienced positive passenger growth each year for the last 16 years, increasing to 25.9 million in 1998, a 4.7 percent increase over 1997. There were two million international travelers in 1998, an increase of 16.8 percent over 1997. For the first two months of 1999, the total number of passengers was up by 8.2 percent and cargo tonnage increased 10.2 percent over the same period in 1998.

Seattle-Tacoma International Airport Operations and Traffic					
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Passengers					
Domestic	19,482,971	21,106,198	22,639,215	22,887,340	23,709,923
International	<u>1,489,848</u>	<u>1,667,788</u>	<u>1,685,381</u>	<u>1,842,773</u>	<u>2,153,209</u>
Total	<u>20,972,819</u>	<u>22,773,986</u>	<u>24,324,596</u>	<u>24,730,113</u>	<u>25,863,132</u>
Air Cargo (Metric Tons)					
Air Mail	90,109	98,519	102,241	112,639	133,413
Air Freight	<u>325,032</u>	<u>309,679</u>	<u>285,977</u>	<u>281,147</u>	<u>294,141</u>
Total	<u>415,141</u>	<u>408,198</u>	<u>388,218</u>	<u>393,786</u>	<u>428,272</u>
Operations (Flights)					
Air Carrier	212,016	226,190	239,063	235,447	221,705
Air Taxi	132,160	149,444	149,882	143,513	180,563
Military	371	567	87	93	110
General Aviation	8,358	10,244	6,077	6,180	5,183
Training	<u>147</u>	<u>91</u>	<u>107</u>	<u>65</u>	<u>15</u>
Total	<u>353,05</u>	<u>386,5362</u>	<u>395,216</u>	<u>385,298</u>	<u>407,576</u>

Source: *Port of Seattle*

The Puget Sound Regional Council (the "PSRC"), a planning council that reviews regional transportation issues to develop regional plans and to coordinate plans of local jurisdictions, includes representatives from King, Kitsap, Pierce, and Snohomish Counties. The Port and the PSRC co-sponsored a study of the future air service needs in the region, and recommended long-term solutions including the construction of a third runway at the Airport. The PSRC approved the project, so long as additional noise reduction measures are taken by the Port. There has been significant opposition to the third runway, primarily by communities adjacent to the Airport, and while the current development proposal includes provisions to address community concerns, it is possible that opposition to the expansion will persist. Construction of the third runway is projected to cost \$530 million, including environmental mitigation expenses. The Port expects to receive a \$161.5 million grant from the Federal Aviation Administration ("FAA") for construction costs; the current financing plan for the runway assumes that the remainder of the project will be funded with additional FAA grants, revenue bonds and Airport funds. Airport officials have projected that the third runway will be completed in 2004.

King County International Airport ("Boeing Field"), a general aviation facility operated by the County, is located in Seattle. With about 410,000 annual takeoffs and landings, Boeing Field is the busiest such facility in the region and ranks among the 15 busiest in the nation.

Marine Facilities. The Port's large and varied network of marine facilities at the Seattle harbor, Fishermen's Terminal and Shilshole Bay Marina serves as a focal point for shipping and waterborne commerce in the Pacific Northwest. The principal activity at the Seattle harbor is the transfer of international containerized cargo arriving by ship to various modes of land transportation destined for other regions of the country and the reverse transfer of domestic goods arriving by various land transportation modes to outbound ships. The

Port has 1.5 million square feet of warehouse storage space for handling cargo and hundreds of acres of outdoor storage. The Port owns 20 commercial marine terminals, including six container terminals on approximately 400 acres, with 22 container cranes serving 16 berths, an intermodal rail facility for cargo with inland destinations and a 150-acre breakbulk/neobulk complex, the largest state-of-the-art on-dock chill warehousing operation on the West Coast. Its grain terminal is an automated tidewater facility with a water depth at the berth that allows it to handle some of the world's largest grain ships.

The value of two-way trade at the Port of Seattle increased 6.0 percent in 1998, to \$79.8 billion. Over the next five years, the Port plans to spend \$400 million to upgrade its terminals, to accommodate future growth and offer more on-dock rail connections.

In mid-1998 a \$275 million project was completed at the Port's Terminal 5, one of the largest container-handling facilities on the West coast. The Port intends to expand another primary container terminal from 106 to 200 acres and add on-dock rail service for use by its largest tenant, Stevedoring Services of America. Property has been acquired for the \$300 million project; construction is expected to begin in 1999 and take two years to complete. The Port expects that the expansion will create 1,300 new stevedoring, pilotage, trucking, and other maritime-related jobs.

In February 1999, Far Eastern Steamship Company announced a decision to make the Port's Terminal 18 its Puget Sound shipping hub, and in March 1999, the first vessel arrived, offloading dimensional lumber from the Russian Far East and picking up modular housing units and mining equipment for the return trip. Also in March 1999, the first bulk fruit ship from Argentina arrived in Seattle, using the Port's new cold treatment inspection system. Before certification of the chill facility, perishable produce could be offloaded only at East coast ports.

The following table shows the amount of cargo that moved through the Port over the last five years. The Containers column gives the levels of cargo moved in containers, while the Metric Tons column shows the total amount of cargo moved, including non-containerized cargo such as grain and petroleum. Year-end 1998 figures show forest products exports declined 51 percent, overseas fruit sales fell 37 percent and fish exports decreased 15 percent.

**Port of Seattle
Cargo At Marine Terminals**

<u>Year</u>	<u>Metric Tons (000s)</u>	<u>Containers TEUs (1)</u>
1998 (2)	13,604	1,543,726
1997	16,407	1,475,813
1996	16,848	1,473,600
1995	18,763	1,479,100
1994	14,337	1,415,000

(1) Twenty-foot equivalent units.

(2) Estimated.

Source: Port of Seattle

The Port also owns and operates a 1,500-berth pleasure boat marina at Shilshole Bay on Puget Sound. The marina includes dry storage, a fuel dock, a boat and engine repair yard, marine supply stores, an administration building with restaurants, a yacht brokerage, and sailing instruction and charter service.

In 1996, the Marine Division of the Port opened the Bell Street Pier portion of the Central Waterfront Project, a mixed-use development along the downtown Seattle waterfront, with an international conference center, restaurants, a pleasure craft marina, and cruise ship berths. The Odyssey Maritime Discovery Center, a \$14 million marine museum, opened in July 1998. In January 1999, the Port announced plans to build a multi-purpose cruise terminal at the Bell Street Pier for approximately \$12.7 million, to be built in two phases. The first phase is expected to be completed before May 2000, when Norwegian Cruise Line is scheduled to begin using the facility as a home port for summer cruises to Alaska. The four-year agreement with the cruise

company is expected to generate \$74 million in business revenues and \$8.4 million in state and local taxes, and to create 400 new jobs.

In March 1999, the Maritime Industrial Center was opened at a former U.S. Coast Guard facility on the Ship Canal, near Fishermen's Terminal. The center was acquired and renovated by the Port for \$6.4 million, and provides facilities and services to support the region's fishing and maritime industries, including 52,800 square feet of warehouse space for light industrial use, a sheet metal manufacturer, fishing companies, and 1,325 linear feet of deep-water moorage space.

Fishing, Agriculture and Forest Products

Seattle is the home port of a major salmon and halibut fishing fleet. Approximately 700 commercial vessels are moored at the Port's Fishermen's Terminal on Salmon Bay, part of a fresh-water system of lakes and canals connected to Puget Sound. Fish received in Seattle are largely for fresh market distribution and for freeze processing. Seattle is also a warehousing and distribution center for fish processed elsewhere in the Northwest, principally in Alaska. While the fishing industry in Puget Sound has diminished in recent years, other segments of the fishing industry remain strong, including the "distant fleet", composed of trawlers, crab boats and halibut boats that fish in the waters off Alaska but are based in Seattle. In 1999, approximately 15 percent of the vessels moored at Fishermen's Terminal were non-commercial, including tug boats, tour boats and salvage vessels.

Agricultural activity in the County consists primarily of dairy farming, truck gardening, horticulture, and the raising of livestock and poultry. Seattle is a major center in the Northwest for agricultural supply, distribution and marketing as well as for food handling and processing and the manufacture of food packaging and containers.

The local forest products industry includes the manufacture of lumber, plywood, paper products, furniture, acoustical materials, and specialty wood products. Timber in the region is harvested under sustained-yield programs on federal, State and private timberlands. The region's leading forest products employer is the Weyerhaeuser Company, which operates lumber mills locally and has its corporate headquarters and a major research and development center in southern King County. Local employment and production levels within this industry have been and are expected to be further impacted by recent decisions by the federal government and the courts concerning the export of raw logs and restrictions on the harvesting of trees on federal lands in "old growth" forests. The extent of such impact is unknown at this time. The wood and paper products industry accounts for approximately one percent of the total Seattle PMSA employment.

Education

The University of Washington (the "University") is one of the oldest and largest state-assisted universities on the West Coast. Established in 1861, the University has 16 schools and colleges and approximately 17,000 employees, and offers instruction in more than 200 academic disciplines. Total undergraduate and graduate student enrollment at the Seattle campus was 35,108 in autumn 1998.

In 1990, the University opened two branch campuses to serve the growing population in the Puget Sound region. One campus is located in southeast Snohomish County in Bothell, with 1,213 students in autumn 1998, and the other is in Pierce County in Tacoma, serving 1,335 students in autumn 1998. The University currently is utilizing temporary facilities in both areas to provide its educational services. Construction of phase I of the Tacoma facilities was completed in 1997. Construction of a new 1,143,800 square-foot facility for the Bothell campus was authorized by the State Legislature and is expected to be completed in autumn 2000.

The University's 1999-2001 budget of \$700.9 million includes \$23 million to support investments in scientific, software and biotechnology research and \$255 million in capital improvements for a new law school building, library renovations and the next phases of construction at the Tacoma and Bothell campuses.

The University consistently ranks among the top five institutions of higher learning in the United States when measured by the receipt of federal grants. During the fiscal year ended June 30, 1998, the University received

approximately \$557 million in grants, 76 percent of which was from federal sources. The largest share of this funding goes to the University's School of Medicine, which has been a leader in medical research for several decades.

Harborview Medical Center is the University's teaching hospital. Every physician practicing at Harborview is a member of the University of Washington School of Medicine faculty. This relationship has been essential to Harborview's development of a wide range of patient care services including burn, trauma, epilepsy, and spinal cord rehabilitation centers. A new 178,000 square-foot research and training facility is expected to be completed at Harborview in 1999.

Other higher education facilities in the City include two private four-year universities, Seattle Pacific University and Seattle University, several small colleges and three community colleges.

Seattle School District No. 1 is the largest school district in the State. It is made up of 66 elementary schools, ten middle schools, ten high schools, one special education school, and a number of alternative education schools. Total district enrollment was 47,609 students as of October 1, 1998.

Tourism, Recreation and Conventions

Bordered on the west by Puget Sound and on the east by the Cascade mountain range, the 2,128 square miles of King County include over 9,000 acres of park land and offer many types of outdoor recreation. The Seattle area has a variety of orchestras, theaters, opera companies, and resident dance groups. The Seattle Symphony's Benaroya Hall is an attraction for tourists and residents, along with Nordstrom's new flagship store and the high-end Pacific Place shopping and entertainment complex, all completed in the downtown area in 1998.

A new 45,600-seat stadium for the American Baseball League's Seattle Mariners opened in July 1999. Tax revenues are being used to pay for about \$372 million of the total costs of the project, originally projected at \$417 million and now estimated at \$525 million. Responsibility for payment of the cost overruns currently is in dispute.

In addition, a new stadium is planned which will be used primarily by the National Football League's Seattle Seahawks. In a statewide referendum in June 1997, voters approved the issuance of general obligation bonds by the State to pay for the construction of the stadium, parking facilities and an exhibition hall and the demolition of the Kingdome. The entire project is expected to cost \$425 million: \$300 million will be paid from various public sources including the State's general obligation bonds, and the remainder will be paid by the Seahawks' owner. Construction of the exhibition hall and parking facilities is expected to begin in November 1999. Construction of the main football stadium is expected to begin in April 2000, after the Seahawks' current home, the Kingdome, is demolished, and is scheduled to be completed in time for the 2002 football season.

Seattle Center, located one mile north of the central business district of Seattle, was the site for the 1962 World's Fair, and it continues to attract both residents and tourists. The 74-acre year-round convention and family entertainment center includes the Pacific Science Center, the Seattle Opera House, Memorial Stadium, the Space Needle, Key Arena, and a number of meeting and display rooms. The Key Arena serves as the home of Seattle's third major league sports team, the National Basketball Association's Seattle Supersonics. A major renovation of the Key Arena was completed in 1995. The Experience Music Project is under construction at Seattle Center and is expected to open by mid-2000.

The Washington State Convention and Trade Center opened in 1988 in downtown Seattle. The Center contains approximately one million gross square feet, including lobbies, retail and restaurant space, parking, and support space. Conventions are an economically important segment of the local tourism industry. The Seattle-King County Convention and Visitors Bureau booked 501 conventions in 1997, which drew an estimated 522,400 delegates. The estimated economic impact was \$291 million. The Third Ministerial Conference of the World Trade Organization, with 134 member countries and 34 observer nations, is scheduled to be held in Seattle in December 1999.

A planned expansion of the Center will double the exhibition space and add a private office tower. Site preparation began in January 1999 and construction began in May 1999. The total project is estimated to be completed by the summer of 2001 and to cost \$170 million, which includes land purchase, low-income housing construction and tenant relocation. Construction of additional retail, office and support space, as well as a hotel and a new site for the Museum of History and Industry, also is planned.

The number of conventions and events in the second quarter of 1998 was unchanged from the same time in 1997, but local room tax collections in the first quarter of 1998 were six percent higher than the first quarter of 1997.

Retail Activity

In 1997, the Seattle PMSA represented the 18th largest retail market in the United States, according to *Sales and Marketing Management's* "1997 Survey of Buying Power." The Seattle PMSA's rankings in some of the sales categories include 15th in apparel and accessories sales, 12th in building materials and hardware store sales, and 13th in total effective buying income.

In the first quarter of 1998, the region's durable goods purchases increased at an annual rate of 15 percent, driven by high-wage aerospace and software employment incomes. In the first six months of 1998, developers completed more than 400,000 square feet of new retail space, with another 1.6 million square feet planned. Most of this development is taking place in Seattle and Bellevue, in the form of mixed-use buildings.

The following table presents taxable retail sales in Seattle and King County. Taxable retail sales for the first six months of 1998 totaled \$5,386,579,735 for Seattle and \$14,737,565,908 for the County.

Taxable Retail Sales (000)		
<u>Year</u>	<u>The City of Seattle</u>	<u>King County</u>
1997	\$10,633,747	\$29,154,628
1996	9,635,640	26,402,602
1995	9,216,804	25,065,320
1994	8,956,433	23,786,571
1993	8,693,866	22,616,269
1992	8,563,528	21,934,019

Source: Washington State Department of Revenue

Endangered Species Listing

The National Marine Fisheries Service ("NMFS") recently added nine species of salmon and steelhead to the endangered species listing under the Endangered Species Act. The habitat of these fish is located in the urban areas of the Pacific Northwest, including the City and the County. NMFS is expected to release rules relating to the recovery of these species of fish during 1999. It is expected that additional funding will be needed to support projects to address fish and habitat restoration requirements associated with this listing. Funding for these programs is expected to come from a variety of sources, including City water rates, drainage rates, sewer rates, general fund moneys, taxes or fees imposed by other local jurisdictions, and federal and State grants. The listing could affect economic development in the area, but the potential impacts, if any, currently are unknown.

Legal and Tax Information

Litigation

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds.

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Bond Counsel. A form of the opinion of such firm with respect to the Bonds is attached hereto as Appendix B. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Tax Exemption

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20 percent minimum tax.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for a small business corporation that had average gross receipts of less than \$5 million for the three-year period beginning after December 31, 1994, and such a small business corporation will continue to be exempt from the corporate alternative minimum tax so long as its average gross receipts do not exceed \$7.5 million.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Certain Other Federal Tax Consequences

Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the

tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as “qualified tax-exempt obligations,” only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with its subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as “qualified tax-exempt obligations” for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

Continuing Disclosure Undertaking

Basic Undertaking to Provide Annual Financial Information and Notice of Material Events. To meet the requirements of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(5) (the “Rule”), as applicable to a participating underwriter for the Bonds, the City will undertake in the Bond Resolution (the “Undertaking”) for the benefit of holders of the Bonds to provide or cause to be provided to each nationally recognized municipal securities information repository designated by the SEC in accordance with the Rule (“NRMSIR”) and to a state information depository, if one is established in the State of Washington and recognized by the SEC (the “SID”), annual financial information and operating data of the type included in the Official Statement with respect to the Water System as generally described below (“annual financial information”); and to each NRMSIR or the Municipal Securities Rulemaking Board (“MSRB”), and to the SID, timely notice of the occurrence of any of the following events with respect to the Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to rights of holders of the Bonds; (viii) Bond calls (other than scheduled mandatory redemption of Term Bonds); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes. The City also will provide to each NRMSIR or to the MSRB, and to the SID, timely notice of a failure by the City to provide required annual financial information on or before the date specified below.

For purposes of this section, “Continuing Disclosure Undertaking,” the term “holders of the Bonds” shall have the meaning intended for such term under the Rule.

Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the City undertakes to provide will consist of (i) annual financial statements of the Water System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law; which statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City they will be provided; (ii) a statement of authorized, issued and outstanding bonded debt

secured by Net Revenue of the Water System; (iii) debt service coverage ratios; (iv) summary operating statistics for the Water System, including population served, water sales revenue and billed water use; and (v) current water rates; and will be provided to each NRMSIR and the SID not later than the last day of the ninth month after the end of each fiscal year of the City, as such fiscal year may be changed as required or permitted by State law, commencing with the City's current fiscal year ending December 31, 1999.

In its provision of annual financial information with respect to these obligations of the City, the City may cross-reference to any "final official statement" (as defined in the Rule) available from the MSRB or any other documents provided to each then existing NRMSIR and the SID.

Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID, or the MSRB, under the circumstances and in the manner permitted by the Rule.

The City will give notice to each NRMSIR or the MSRB, and the SID, of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended operating data or financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The City's obligations to provide annual financial information and notices of certain events will terminate upon the legal defeasance, prior redemption or payment in full of all of the then outstanding Bonds. In addition, the Undertaking, or any provision thereof, will be null and void if the City (i) obtains an opinion of nationally recognized bond counsel or other counsel familiar with the federal securities laws to the effect that those portions of the Rule which require the Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (ii) so notifies the SID and either the MSRB or each then existing NRMSIR.

Remedy for Failure to Comply with Undertaking. If the City fails to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the City learns of that failure.

No failure by the City (or any other obligated person) to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary and appropriate to compel the City or other obligated person to comply with the Undertaking.

Other Continuing Disclosure Undertakings of the City. The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City on and after July 3, 1995 subject to the Rule. The City is in compliance with all such undertakings.

Other Bond Information

Municipal Bond Insurance on Insured Bonds

The following information has been provided by Financial Guaranty Insurance Company. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm the following with Financial Guaranty Insurance Company.

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy (the "Policy") for the Bonds maturing on July 1 in the years 2017, 2019, 2020, 2023, and 2029 (the "Insured Bonds"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Insured Bonds (the "City").

Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Insured Bonds or the City's Bond Registrar (the "Paying Agent") of the nonpayment of such amount by the City. The Fiscal Agent will disburse such amount due on any Insured Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of an Insured Bond includes any payment of principal or interest made to an owner of an Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Insured Bonds. The Policy covers failure to pay principal of the Insured Bonds on their respective stated maturity dates, or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Insured Bonds may have been otherwise called for redemption, accelerated, or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment. See Appendix E—Municipal Bond Insurance Policy Specimen.

This Official Statement contains a section regarding the ratings assigned to the Insured Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Insured Bonds. Reference should be made to the section herein entitled "Ratings on Uninsured Bonds" for a discussion of the ratings assigned to the Uninsured Bonds.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and is subject to regulation by the State of New York Insurance Department. As of June 30, 1999, the total capital and surplus of Financial Guaranty was approximately \$1,285,559,848. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: (212) 312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: (212) 480-5187).

Year 2000 Readiness Disclosure. Financial Guaranty is aware of the potential disruptive effect of the Year 2000 problem and recognizes that it is possible that an issuer may be unable to make timely payment of debt service due to Year 2000 problems. Financial Guaranty is surveying selected issuers and paying agents to assess their Year 2000 readiness. Financial Guaranty believes that it has adequate sources of liquidity to cover any payments occasioned by an issuer's inability to make timely payment of debt service due to Year 2000 problems.

Commencing in early 1998, Financial Guaranty implemented an action plan to make its computer systems and applications Year 2000 ready. As of this time, Year 2000 system remediation and testing is complete for all Financial Guaranty's internal systems and applications. In addition, Financial Guaranty has updated, and will continue to update, its business contingency and disaster recovery plans. Financial Guaranty also will continue to monitor certain third parties throughout 1999 and into the year 2000.

Ratings on the Insured Bonds

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies ("S&P"), have assigned ratings of "Aaa" and "AAA," respectively, to the Insured Bonds, with the understanding that, upon delivery of the Insured Bonds, the Municipal Bond New Insurance Policy will be issued by Financial Guaranty. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; Standard & Poor's Ratings Services, 25 Broadway, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Insured Bonds.

Ratings on the Uninsured Bonds

As noted on the cover page of this Official Statement, the City has received ratings on the Bonds maturing on July 1 in the years 2001 through 2016 (the "Uninsured Bonds") from Moody's and S&P. The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Uninsured Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Uninsured Bonds.

Purchaser of the Bonds

The Bonds are being purchased by PaineWebber Inc. (the "Purchaser") at a price of \$108,765,663.80, plus accrued interest. The Bonds will be reoffered at the prices or yields set forth on the cover of this Official Statement. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the cover hereof, and such initial offering prices may be changed from time to time by the Purchaser. After the initial public offering, the public offering prices may be varied from time to time.

The Bank of New York Year 2000 Compliance

The following information has been provided by The Bank of New York. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm the following with The Bank of New York.

The Bond Registrar, The Bank of New York, has established a Year 2000 compliance program consisting of, among other things, updating major proprietary application systems and evaluating the Year 2000 compliance efforts of vendors of major vendor-supplied systems and certain other business partners. The Bank of New York believes that its Year 2000 compliance program is currently on schedule to meet the needs of its customers and the compliance deadlines defined by its regulators. As of December 31, 1998, testing and renovation of the proprietary application systems that The Bank of New York deems "mission critical" were substantially completed and these systems are currently being used by The Bank of New York. In addition, all vendor supplied software systems that The Bank of New York deems "mission critical" have been tested and, based upon such testing, The Bank of New York believes that such systems will not be adversely affected in a material way as a result of the date change to the Year 2000.

Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of suppliers, customers and other business partners, The Bank of New York is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on The Bank of New York and its ability to perform its obligations under the trust indenture. The Year 2000 compliance program is intended to reduce significantly The Bank of New York's level of uncertainty about the Year 2000 problem and, in particular, the Year 2000 compliance and readiness of The Bank of New York and its material business partners. The Bank of New York believes that, with completion of its Year 2000-

compliance program as scheduled, the possibility of significant interruptions of normal operations should be reduced. However, because of the unprecedented nature of the Year 2000 problem, there can be no certainty as to its impact.

Official Statement

So far as any statements are made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Information concerning the City, SPU and the Water System contained in this Official Statement has been furnished by the City. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of any of the Bonds.

The execution and delivery of this Official Statement have been duly authorized by the City.

The City of Seattle

By: /s/
Dwight D. Dively
Finance Director

Appendix A

Ordinance

THE CITY OF SEATTLE, WASHINGTON

ORDINANCE 119649

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to or extensions of the existing municipal water system; authorizing the issuance and sale of water system revenue bonds for the purposes of paying part of the cost of carrying out that system or plan and providing a reserve for and paying the costs of issuing and selling those bonds; describing the terms, conditions, covenants, lien and manner of sale of those bonds; and creating certain accounts of the City.

Passed September 7, 1999.

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THE CITY OF SEATTLE, WASHINGTON

ORDINANCE 119649

AN ORDINANCE relating to the municipal water system of The City of Seattle; adopting a system or plan of additions or betterments to or extensions of the existing municipal water system; authorizing the issuance and sale of water system revenue bonds for the purposes of paying part of the cost of carrying out that system or plan and providing a reserve for and paying the costs of issuing and selling those bonds; describing the terms, conditions, covenants, lien and manner of sale of those bonds; and creating certain accounts of the City.

WHEREAS, The City of Seattle (the "City") owns and operates a municipal water system (the "Municipal Water System"); and

WHEREAS, pursuant to Ordinance 116705 and Resolution 28745 the City issued its Two Hundred Fifty-Six Million Two Hundred Fifty-Five Thousand Dollars (\$256,255,000) principal amount Water System and Refunding Revenue Bonds, 1993 (the "1993 Bonds") payable from and having a charge and lien upon the Net Revenue of the Municipal Water System prior and superior to other charges whatsoever; and

WHEREAS, by Section 24 of Ordinance 116705, the City reserved the right to issue revenue bonds and other obligations having a charge and lien upon the Net Revenue of the Municipal Water System on a parity with the charge and lien of the 1993 Bonds ("Future Parity Bonds") if the following conditions are met and complied with at the time of issuance of those Future Parity Bonds:

(a) *There shall be no deficiency in the Bond Account and no Event of Default as defined in Section 34 of Ordinance 116705 shall have occurred and be continuing.*

(b) *The Parity Bond Authorizing Ordinance shall provide that all assessments and interest thereon that may be levied in any ULID created for the*

purpose of paying, in whole or in part, the principal of and interest on those Future Parity Bonds, shall be paid directly into the Bond Account, except for any prepaid assessments permitted by law to be paid into a construction fund or account.

(c) *The Parity Bond Authorizing Ordinance shall provide for the payment of the principal thereof and interest thereon out of the Bond Account.*

(d) *The Parity Bond Authorizing Ordinance shall provide for the payment of amounts into the Bond Account to meet mandatory redemption requirements applicable to any Term Bonds to be issued and for regular payments to be made for the payment of the principal of such Term Bonds on or before their maturity, or, as an alternative, the mandatory redemption of those Term Bonds prior to their maturity date from money in the Principal and Interest Subaccount.*

(e) *The Parity Bond Authorizing Ordinance shall provide for the deposit into the Reserve Subaccount of (i) an amount, if any, necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds from Future Parity Bond proceeds or other money legally available, or (ii) Reserve Insurance or an amount plus Reserve Insurance necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds, or (iii) amounts necessary to fund the Reserve Requirement from ULID Assessments and Adjusted Net Revenue within five years from the date of issuance of those Future Parity Bonds, in five approximately equal annual payments.*

(f) *There shall be on file with the City either:*

(1) *a certificate of the Finance Director demonstrating that during any twelve consecutive calendar months out of the immediately*

1 preceding twenty-four (24) calendar months Adjusted
2 Net Revenue was at least equal to the Coverage
3 Requirement for all Parity Bonds plus the Future
4 Parity Bonds proposed to be issued (and assuming
that the debt service of the proposed Future Parity
Bonds for that twelve-month period was the Average
Annual Debt Service for those proposed bonds); or

5 (2) a certificate of both the Finance
6 Director and the Superintendent of the Municipal
7 Water System (or any officer who succeeds to
8 substantially all of the responsibilities of either
9 office) that in their opinion the Adjusted Net Revenue
10 for the five fiscal years next following the earlier of
11 (i) the end of the period during which interest on
12 those Future Parity Bonds is to be capitalized or, if
13 no interest is capitalized, the fiscal year in which the
14 Future Parity Bonds are issued, or (ii) the date on
15 which substantially all new facilities financed with
16 those Future Parity Bonds are expected to commence
17 operations, such Adjusted Net Revenue further
18 adjusted as provided in paragraphs (i) through (iv)
19 below, will be at least equal to the Coverage
20 Requirement. That certificate may take into account
21 the following adjustments:

22 (i) Any changes in rates in effect and
23 being charged, or rates expected to be charged in
24 accordance with a program of specific rates, rate
25 levels or increases in overall rate revenue approved
26 by ordinance or resolution;

(ii) Net revenue from customers of the
Municipal Water System who have become
customers during the twelve (12) consecutive month
period or thereafter, and their estimate of net
revenue from any customers to be connected to the
Municipal Water System who have paid the required
connection charges, adjusted to reflect one year's
net revenue from those customers;

(iii) Their estimate of net revenue from
customers anticipated to be served by facilities or
improvements financed in substantial part by those
Future Parity Bonds (or additional Parity Bonds
expected to be issued during the five-year period);
and

(iv) Net revenue from any person, firm,
corporation or municipal corporation under any
executed contract for water or other utility service,
which revenue was not included in the historical Net
Revenue of the Municipal Water System.

If the Future Parity Bonds proposed to be
issued are for the sole purpose of refunding
outstanding bonds payable from the Bond Account,
no such coverage certification shall be required if
the Adjusted Annual Debt Service on the Parity
Bonds after the issuance of the Future Parity Bonds
is not, for any year in which the Parity Bonds being
refunded were outstanding, more than Five
Thousand Dollars (\$5,000) over the Adjusted
Annual Debt Service on the Parity Bonds prior to
the issuance of those Future Parity Bonds; and

WHEREAS, pursuant to Ordinance 118512 and
Resolution 29553 the City issued its Fifty-Three
Million Dollars (\$53,000,000) principal amount
Water System Revenue Bonds, 1997 (the "1997
Bonds") on a parity of charge and lien with the 1993
Bonds; and

WHEREAS, pursuant to Ordinance 118973 and
Resolution 29785 the City issued its Eighty Million
Dollars (\$80,000,000) principal amount Water
System Revenue Bonds, 1998 (the "1998 Bonds") on
a parity of charge and lien with the 1993 Bonds and
the 1997 Bonds; and

WHEREAS, pursuant to Ordinance 119457 and
Resolution 29973 the City issued its One Hundred
Million Dollars (\$100,000,000) principal amount
Water System Revenue Bonds, 1999 (the "1999A
Bonds") on a parity of charge and lien with the 1993
Bonds, the 1997 Bonds and the 1998 Bonds (together
with the 1999A Bonds, the "Outstanding Parity
Bonds"); and

WHEREAS, the City has need to acquire and
construct certain additions or betterments to or
extensions of the Municipal Water System described
in the system or plan adopted by this ordinance (the
"Plan of Additions"); and

WHEREAS, the City has determined to issue its
water system revenue bonds on a parity of charge and
lien with the Outstanding Parity Bonds to pay part of
the cost of carrying out the Plan of Additions and to
provide a reserve for and pay the costs of issuing and
selling those bonds; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF
SEATTLE, WASHINGTON, AS FOLLOWS:

1 **Section 1. Definitions.**

2 As used in this ordinance and for the purposes of
3 this ordinance the following words shall have the
4 following meanings:

5 **“Accreted Value”** means:

6 (1) with respect to any Capital
7 Appreciation Bonds, as of the time of calculation, the
8 sum of the amount representing the initial principal
9 amount of such Capital Appreciation Bonds as set
10 forth in the applicable Parity Bond Authorizing
11 Ordinance plus the interest accumulated,
12 compounded and unpaid thereon as of the most recent
13 compounding date, or

14 (2) with respect to original issue
15 discount bonds under the Code, as of the time of
16 calculation, the amount representing the initial public
17 offering price of such original issue discount bonds
18 plus the amount of the discounted principal which has
19 accreted since the date of issue, determined in
20 accordance with the provisions of the applicable
21 Parity Bond Authorizing Ordinance.

22 **“Adjusted Annual Debt Service”** for any fiscal
23 year means Annual Debt Service minus (1) an amount
24 equal to ULID Assessments due in that year and not
25 delinquent, (2) an amount equal to earnings from
26 investments in the Reserve Subaccount and (3)
27 Annual Debt Service provided for by Parity Bond
28 proceeds.

29 **“Adjusted Gross Revenue of the Municipal
30 Water System”** or **“Adjusted Gross Revenue”**
31 means Gross Revenue of the Municipal Water System
32 plus withdrawals from the Rate Stabilization Account
33 and minus (1) ULID Assessments, (2) earnings from
34 investments in the Reserve Subaccount and (3)
35 deposits into the Rate Stabilization Account.

36 **“Adjusted Net Revenue of the Municipal
37 Water System”** or **“Adjusted Net Revenue”** means
38 Adjusted Gross Revenue less Operation and
39 Maintenance Expenses.

40 **“Annual Debt Service”** means, for any fiscal
41 year of the City, all amounts required to be paid in
42 respect of interest on and principal of Parity Bonds
43 and Payment Agreement Payments in respect of
44 Parity Payment Agreements, subject to the following:

45 (i) **Debt Service on Term Bonds.** For
46 purposes of calculating debt service on Term Bonds,
47 only the scheduled mandatory redemption amounts

48 payable in respect of principal of Term Bonds shall
49 be taken into account in any fiscal year prior to the
50 Term Bond Maturity Year, and only the principal
51 amount scheduled to remain outstanding after
52 payment of all prior mandatory redemption amounts
53 shall be taken into account in the Term Bond
54 Maturity Year;

55 (ii) **Interest on Parity Bonds.** For
56 purposes of determining compliance with the
57 Coverage Requirement, the Reserve Requirement and
58 conditions for the issuance of Future Parity Bonds,

59 (A) **Generally.** Except as otherwise
60 provided by subparagraph (ii)(B) with respect to
61 Variable Interest Rate Bonds and by subparagraph
62 (ii)(C) with respect to Parity Bonds with respect to
63 which a Payment Agreement is in force, interest on
64 any issue of Parity Bonds shall be calculated based on
65 the actual amount of accrued, accreted or otherwise
66 accumulated interest that is payable in respect of that
67 issue taken as a whole, at the rate or rates set forth in
68 the Parity Bond Authorizing Ordinance;

69 (B) **Interest on Variable Interest Rate
70 Bonds.** The amount of interest deemed to be payable
71 on any issue of Variable Interest Rate Bonds shall be
72 calculated on the assumption that the interest rate on
73 those bonds would be equal to the rate (the “assumed
74 RBI-based rate”) that is ninety percent (90%) of the
75 average RBI during the fiscal quarter preceding the
76 quarter in which the calculation is made;

77 (C) **Interest on Parity Bonds With
78 Respect to Which a Payment Agreement is in Force.**
79 Debt service on Parity Bonds with respect to which a
80 Payment Agreement is in force shall be based on the
81 net economic effect on the City expected to be
82 produced by the terms of the Parity Bonds and the
83 terms of the Payment Agreement, including but not
84 limited to the effects that (i) Parity Bonds that would,
85 but for a Payment Agreement, be treated as
86 obligations bearing interest at a Variable Interest Rate
87 instead shall be treated as obligations bearing interest
88 at a fixed interest rate, and (ii) Parity Bonds that
89 would, but for a Payment Agreement, be treated as
90 obligations bearing interest at a fixed interest rate
91 instead shall be treated as obligations bearing interest
92 at a Variable Interest Rate. Accordingly, the amount
93 of interest deemed to be payable on any Parity Bonds
94 with respect to which a Payment Agreement is in
95 force shall be an amount equal to the amount of
96 interest that would be payable at the rate or rates
97 stated in those Parity Bonds plus Payment Agreement

1 Payments minus Payment Agreement Receipts. For
2 the purposes of calculating as nearly as practicable
3 Payment Agreement Receipts and Payment
4 Agreement Payments under a Payment Agreement,
5 the following assumptions shall be made:

6 (1) Counterparty Obligated to Pay
7 Actual Variable Interest on Variable Interest Rate
8 Bonds. If any Payment Agreement obligates a
9 Qualified Counterparty to make payments to the City
10 based on the actual Variable Interest Rate on Parity
11 Bonds that would, but for the Payment Agreement, be
12 treated as Variable Interest Rate Bonds and obligates
13 the City to make payments to the Qualified
14 Counterparty based on a fixed rate, payments by the
15 City to the Qualified Counterparty shall be assumed
16 to be made at the fixed rate specified by the Payment
17 Agreement and payments by the Qualified
18 Counterparty to the City shall be assumed to be made
19 at the actual Variable Interest Rate on such bonds,
20 without regard to the occurrence of any event that,
21 under the provisions of the Payment Agreement,
22 would permit the Qualified Counterparty to make
23 payments on any basis other than the actual Variable
24 Interest Rate on such bonds, and the Parity Bond
25 Authorizing Ordinance shall set forth a debt service
26 schedule for those Parity Bonds based on that
assumption;

(2) Variable Interest Rate Bonds and
Payment Agreements Having the Same Variable Rate
Component. If both a Payment Agreement and
related Parity Bonds that would, but for the Payment
Agreement, be treated as Variable Interest Rate
Bonds include a variable rate payment component
that is required to be calculated on the same basis
(including, without limitation, on the basis of the
same variable rate index), it shall be assumed that the
variable rate payment component payable pursuant to
the Payment Agreement is equal in amount to the
variable rate interest component payable on those
Parity Bonds;

(3) Variable Interest Rate Bonds and
Payment Agreements Having Different Variable Rate
Interest Components. If a Payment Agreement
obligates either the City or the Qualified Counterparty
to make payments of a variable rate interest
component on a basis that is different (including,
without limitation, on a different variable rate index)
from the basis that is required to be used to calculate
interest on the Parity Bonds that would, but for the

Payment Agreement, be treated as Variable Interest
Rate Bonds, it shall be assumed:

(a) City Obligated to Make Payments
Based on Variable Rate Index. If payments by the
City under the Payment Agreement are to be based on
a variable rate index and payments by the Qualified
Counterparty are to be based on a fixed rate, that
payments by the City to the Qualified Counterparty
will be based upon an interest rate equal to the
assumed RBI-based rate, and that payments by the
Qualified Counterparty to the City will be based on
the fixed rate specified by the Payment Agreement;
and

(b) City Obligated to Make Payments
Based on Fixed Rate. If payments by the City under
the Payment Agreement are to be based on a fixed
rate and payments by the Qualified Counterparty are
to be based on a variable rate index, that payments by
the City to the Qualified Counterparty will be based
on an interest rate equal to the rate (the "assumed
fixed payor rate") that is one hundred and five
percent (105%) of the fixed rate specified by the
Payment Agreement, and that payments by the
Qualified Counterparty to the City will be based on a
rate equal to the actual Variable Interest Rate on the
Variable Interest Rate Bonds;

(4) Certain Payment Agreements May
be Disregarded. Notwithstanding the provisions of
subparagraphs (ii)(C)(1), (2) and (3) of this
definition, the City shall not be required to (but may
in its discretion) take into account in determining
Annual Debt Service the effects of any Payment
Agreement that has a term of ten (10) years or less;

(D) Debt Service on Parity Payment
Agreements. No additional debt service shall be
taken into account with respect to a Parity Payment
Agreement for any period during which Payment
Agreement Payments on that Parity Payment
Agreement are taken into account in determining
Annual Debt Service on related Parity Bonds under
subparagraph (ii)(C) of this definition. However, for
any period during which Payment Agreement
Payments are not taken into account in calculating
Annual Debt Service on any outstanding Parity Bonds
because the Parity Payment Agreement is not then
related to any outstanding Parity Bonds, debt service
on that Parity Payment Agreement shall be taken into
account by assuming:

1 (1) City Obligated to Make Payments
2 Based on Fixed Rate. If the City is obligated to make
3 Payment Agreement Payments based on a fixed rate
4 and the Qualified Counterparty is obligated to make
5 payments based on a variable rate index, that
6 payments by the City will be based on the assumed
7 fixed payor rate, and that payments by the Qualified
8 Counterparty will be based on a rate equal to the
9 average rate determined by the variable rate index
10 specified by the Parity Payment Agreement during the
11 fiscal quarter preceding the quarter in which the
12 calculation is made, and

13 (2) City Obligated to Make Payments
14 Based on Variable Rate Index. If the City is
15 obligated to make Payment Agreement Payments
16 based on a variable rate index and the Qualified
17 Counterparty is obligated to make payment based on
18 a fixed rate, that payments by the City will be based
19 on a rate equal to the average rate determined by the
20 variable rate index specified by the Parity Payment
21 Agreement during the fiscal quarter preceding the
22 quarter in which the calculation is made, and that the
23 Qualified Counterparty will make payments based on
24 the fixed rate specified by the Parity Payment
25 Agreement; and

26 (E) For purposes of calculating debt
service on any Balloon Bonds, it shall be assumed
that the principal of those Balloon Bonds, together
with interest thereon at a rate equal to the assumed
RBI-based rate, will be amortized in equal annual
installments over a term of thirty (30) years.

“Average Annual Debt Service” means the sum
of the Annual Debt Service for the remaining years to
the last scheduled maturity of the applicable issue or
issues of Parity Bonds divided by the number of those
years.

“Balloon Bonds” means any series of Parity
Bonds designated as Balloon Bonds in the applicable
Parity Bond Authorizing Ordinance.

“Bond Account” means that special account of
the City known as the Water Revenue Bond Account
created by Ordinance 116705 in the Water Fund of
the City for the payment of the principal of,
mandatory sinking fund payments and interest on the
Parity Bonds.

“Bond Counsel” means a firm of lawyers
nationally recognized and accepted as bond counsel

and so employed by the City for any purpose under
this ordinance applicable to the use of that term.

“Bond Insurance” means any bond insurance,
letter of credit, guaranty, surety bond or similar credit
enhancement device providing for or securing the
payment of all or part of the principal of and interest
on any Parity Bonds.

“Bond Insurer” means any provider of Bond
Insurance approved by the City Council by ordinance
or resolution.

“Bond Register” means the books or records
maintained by the Bond Registrar on which are
recorded the names and addresses of the registered
owners of each of the Bonds.

“Bond Registrar” means the Fiscal Agency.

“Bond Resolution” means a resolution of the
City Council adopted pursuant to this ordinance and
confirming the sale and final terms of the Bonds.

“Bonds” means the bonds authorized to be
issued pursuant to, under the authority of and for the
purposes provided in this ordinance.

“1993 Bonds” means the Water System and
Refunding Revenue Bonds, 1993, of the City, issued
pursuant to Ordinance 116705 and Resolution 28745.

“1997 Bonds” means the Water System Revenue
Bonds, 1997, of the City, issued pursuant to
Ordinance 118512 and Resolution 29553.

“1998 Bonds” means the Water System Revenue
Bonds, 1998, of the City, issued pursuant to
Ordinance 118973 and Resolution 29785.

“1999A Bonds” means the Water System
Revenue Bonds, 1999, of the City, issued pursuant to
Ordinance 119457 and Resolution 29973.

“Capital Appreciation Bonds” means any
Parity Bonds, all or a portion of the interest on which
is compounded and accumulated at the rates or in the
manner, and on the dates, set forth in the applicable
Parity Bond Authorizing Ordinance and is payable
only upon redemption or on the maturity date of such
Parity Bonds. Parity Bonds that are issued as Capital
Appreciation Bonds, but later convert to obligations
on which interest is paid periodically, shall be Capital
Appreciation Bonds until the conversion date and
thereafter shall no longer be Capital Appreciation
Bonds, but shall be treated as having a principal

amount equal to their Accreted Value on the conversion date.

“CIP” means the portion or portions relating to the Municipal Water System of the “1999-2004 Capital Improvement Program” of the City as adopted by the City in Ordinance 119246, on November 23, 1998, as that CIP may be amended, updated, supplemented or replaced from time to time.

“City” means The City of Seattle, Washington.

“City Clerk” means the City Clerk of the City, or any other officer who succeeds to substantially all of the responsibilities of that office specified in this ordinance.

“Code” means the Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

“Construction Account” means the Water System Construction Subaccount, 1999B, created by this ordinance in the Water System Construction Account, which account was previously created in the Water Fund.

“Contract Resource Obligation” means an obligation of the City, designated as a Contract Resource Obligation and entered into pursuant to Section 23 of this ordinance, to make payments for water supply, transmission or other commodity or service to another person or entity (including without limitation a separate utility system created pursuant to Section 22 of this ordinance).

“Coverage Requirement” in any fiscal year of the City means an amount of Adjusted Net Revenue of the Municipal Water System equal to at least 1.25 times the Adjusted Annual Debt Service that year on all Parity Bonds.

“DTC” means The Depository Trust Company, New York, New York, as initial Securities Depository for the Bonds.

“Finance Director” means the Finance Director of the Executive Services Department of the City, or any other officer who succeeds to substantially all of the responsibilities of that office specified in this ordinance.

“Fiscal Agency” means either of the fiscal agencies of the State of Washington located in Seattle, Washington, and New York, New York, or

any other paying agent/registrant of the City, as the same may be designated from time to time.

“Future Parity Bonds” means all revenue bonds and other obligations (including Parity Payment Agreements) of the City issued or entered into after the date of the issuance of the Bonds and then outstanding, the payment of which constitutes a charge and lien on the Net Revenue of the Municipal Water System equal in rank with the charge and lien upon such revenue required to be paid into the Bond Account to pay and secure the payment of the principal of and interest on the Parity Bonds, including the Bonds.

“Government Obligations” means those government obligations defined by RCW 39.53.010(9) as it now reads or hereafter may be amended or replaced.

“Gross Revenue of the Municipal Water System” or **“Gross Revenue”** means in any fiscal year of the City all of the revenues of the Municipal Water System, including but not limited to revenue from the sale or transmission of water; the sale, lease or furnishing of other commodities, services, properties or facilities; the imposition of connection, capital improvement or other charges; ULID Assessments; net receipts from Payment Agreements; and earnings from the investment of money in the Water Fund. However, Gross Revenue shall not include earnings of a separate utility system that may be acquired or constructed by the City pursuant to Section 22 hereof; principal proceeds of Parity Bonds or other borrowings; or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund Municipal Water System obligations (until commingled with other earnings and revenues of the Municipal Water System defined as Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code.

“Independent Consulting Engineer” means either (1) an independent licensed professional engineer experienced in the design, construction or operation of municipal utilities of comparable size and character to the Municipal Water System, or (2) an independent certified public accountant or other professional consultant experienced in the development of rates and charges for municipal utilities of comparable size and character to the Municipal Water System.

1 **“Letter of Representations”** means the Letter
2 of Representations relating to the Bonds to be
delivered by the City to DTC.

3 **“Maximum Annual Debt Service”** means at the
4 time of calculation, the maximum amount of Annual
Debt Service that will mature or come due in the
current year or any future year on the Parity Bonds.

5 **“Municipal Water System”** means the water
6 system of the City as it now exists, and all additions
thereto and betterments and extensions thereof at any
7 time made for so long as any of the Parity Bonds are
outstanding. The Municipal Water System shall not
8 include any water supply or service or other facilities
that may be created, acquired or constructed by the
9 City as a separate utility system as provided in
Section 22 of this ordinance.

10 *Upon the maturity, redemption or defeasance of*
11 *all of the then outstanding 1993 Bonds, “Municipal*
Water System” shall be defined as follows:

12 *“Municipal Water System” means the water system*
13 *of the City as it now exists, and all additions thereto*
14 *and betterments and extensions thereof at any time*
15 *made, together with any utility systems of the City*
16 *hereinafter combined with the Municipal Water*
17 *System. The Municipal Water System shall not*
18 *include any water supply or other utility system*
19 *service or other facilities that may be created,*
20 *acquired or constructed by the City as a separate*
21 *utility system as provided in Section 22 of this*
22 *ordinance.*

23 **“Net Revenue of the Municipal Water**
24 **System”** or **“Net Revenue”** means the Gross
25 Revenue less Operation and Maintenance Expenses.

26 **“Operation and Maintenance Expenses”**
means all expenses incurred by the City in causing the
Municipal Water System of the City to be operated
and maintained in good repair, working order and
condition, including without limitation: deposits,
premiums, assessments or other payments for
insurance, if any, on the Municipal Water System;
payments into pension funds; State-imposed taxes;
amounts due under Contract Resource Obligations
(but only at the times described in Section 23 of this
ordinance); payments made to any other person or
entity for the receipt of water supply or transmission
or other commodity or service; and payments with
respect to any other expenses of the Municipal Water
System that are properly treated as operation and

maintenance expenses under generally accepted
accounting principles applicable to municipal
corporations. Operation and Maintenance Expenses
does not include any depreciation or taxes levied or
imposed by the City, or payments to the City in lieu
of taxes, or capital additions or capital replacements
to the Municipal Water System.

“Outstanding Parity Bonds” means the then
outstanding 1993 Bonds, 1997 Bonds, 1998 Bonds
and 1999A Bonds.

“Parity Bonds” means the Outstanding Parity
Bonds, the Bonds, and any Future Parity Bonds.

“Parity Bond Authorizing Ordinance” means
the ordinance and/or resolution of the City that
authorizes the issuance and sale and establishes the
terms of a particular issue of Parity Bonds and other
matters relating to the same plan of finance.

“Parity Payment Agreement” means a
Payment Agreement under which the City’s payment
obligations are expressly stated to constitute a charge
and lien on the Net Revenue of the Municipal Water
System equal in rank with the charge and lien upon
such revenue required to be paid into the Bond
Account to pay and secure the payment of the
principal of and interest on Parity Bonds.

Upon the maturity, redemption or defeasance of
all of the then outstanding 1993 Bonds, “Parity
Payment Agreement” shall be defined as follows:

“Parity Payment Agreement” means a Payment
Agreement under which the City’s payment
obligations are expressly stated to constitute a
charge and lien on the Net Revenue of the Municipal
Water System equal in rank with the charge and lien
upon such revenue required to be paid into the Bond
Account to pay interest on Parity Bonds.

“Payment Agreement” means a written
agreement, for the purpose of managing or reducing
the City’s exposure to fluctuations or levels of interest
rates or for other interest rate, investment, asset or
liability management purposes, entered into on either
a current or forward basis by the City and a Qualified
Counterparty as authorized by any applicable laws of
the State in connection with, or incidental to, the
issuance, incurring or carrying of particular bonds,
notes, bond anticipation notes, commercial paper, or
other obligations for borrowed money, or lease,
installment purchase or other similar financing
agreements or certificates of participation therein,

that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments, or any combination thereof or any similar device.

“Payment Agreement Payments” means the amounts periodically required to be paid by the City to the Qualified Counterparty pursuant to a Payment Agreement.

“Payment Agreement Receipts” means the amounts periodically required to be paid by the Qualified Counterparty to the City pursuant to a Payment Agreement.

“Plan of Additions” means, collectively, the CIP and the Water Supply Plan, as they may be modified hereafter as described herein.

“Principal and Interest Subaccount” means the account of that name created in the Bond Account for the payment of the principal of and interest and mandatory redemption requirements, if any, on the Parity Bonds.

“Qualified Counterparty” means a party (other than the City or a party related to the City) who is the other party to a Payment Agreement and (1)(a) whose senior debt obligations are rated in one of the three highest rating categories of each of the Rating Agencies (without regard to any gradations within a rating category) or (b) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating in one of the two highest rating categories of each of the Rating Agencies, and (2) who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

“Rate Stabilization Account” means the account of that name created in the Water Fund pursuant to Ordinance 116705.

“Rating Agencies” means Moody’s Investors Service, Inc., and Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc., and their successors, and any other nationally-recognized securities rating agency or agencies rating Parity Bonds at the request of the City.

“RBI” means The Bond Buyer Revenue Bond Index or comparable index, or, if no comparable index can be obtained, eighty percent (80%) of the

interest rate for actively traded thirty (30) year United States Treasury obligations.

“Reserve Insurance” means any bond insurance, letter of credit, guaranty, surety bond or similar credit enhancement device obtained by the City equal to part or all of the Reserve Requirement for any Parity Bonds which is issued by an institution which has been assigned a credit rating at the time of issuance of the device in one of the two highest rating categories of each of the Rating Agencies.

“Reserve Requirement” means as of any date the lesser of Maximum Annual Debt Service or one hundred twenty-five percent (125%) of Average Annual Debt Service on the Parity Bonds.

“Reserve Subaccount” means the account of that name created in the Bond Account for the purpose of securing the payment of the principal of and interest on the Parity Bonds.

“Securities Depository” means any one of the following registered securities depositories which has been designated by the City: (i) DTC; (ii) Midwest Securities Trust Company, Chicago, Illinois; (iii) Philadelphia Depository Trust Company, Philadelphia, Pennsylvania; or (iv) such other securities depositories as the City may designate in a certificate of the City delivered to the Bond Registrar.

“State” means the State of Washington.

“State Auditor” means the office of the Auditor of the State or such other department or office of the State authorized and directed by State law to make audits.

“Term Bond Maturity Year” means any calendar year in which Term Bonds are scheduled to mature.

“Term Bonds” means those Parity Bonds designated as such in the applicable Parity Bond Authorizing Ordinance.

“ULID” means a utility local improvement district.

“ULID Assessments” means all assessments levied and collected in a ULID of the City created for the acquisition or construction of additions to and betterments and extensions of the Municipal Water System if (and only if) those assessments are pledged to be paid into the Bond Account, not including any prepaid assessments paid into a construction fund or

1 account. ULID Assessments shall include
2 installments thereof and any interest or penalties
thereon.

3 **“Undertaking”** means the City’s undertaking in
4 the Bond Resolution to provide certain disclosure as
provided by Section 25.

5 **“Variable Interest Rate”** means any variable
6 interest rate or rates to be borne by any Parity Bonds.
7 The method of computing such a variable interest rate
8 shall be as specified in the applicable Parity Bond
9 Authorizing Ordinance, which ordinance or
10 resolution also shall specify either (1) the particular
11 period or periods of time or manner of determining
such period or periods of time for which each value
of such variable interest rate shall remain in effect or
(2) the time or times upon which any change in such
variable interest rate shall become effective. A
Variable Interest Rate may, without limitation, be
based on the interest rate on certain bonds or may be
based on interest rate, currency, commodity or other
indexes.

12 **“Variable Interest Rate Bonds”** means, for any
13 period of time, any Parity Bonds that bear a Variable
14 Interest Rate during that period, except that Parity
Bonds shall not be treated as Variable Interest Rate
Bonds if the net economic effect of interest rates on
particular Parity Bonds of an issue and interest rates
on other Parity Bonds of the same issue, as set forth
in the applicable Parity Bond Authorizing Ordinance,
or the net economic effect of a Payment Agreement
with respect to particular Parity Bonds, in either case
is to produce obligations that bear interest at a fixed
interest rate; and Parity Bonds with respect to which a
Payment Agreement is in force shall be treated as
Variable Interest Rate Bonds if the net economic
effect of the Payment Agreement is to produce
obligations that bear interest at a Variable Interest
Rate.

21 **“Water Fund”** means the fund of that name into
22 which is paid the Gross Revenue of the Municipal
Water System.

23 **“Water Supply Plan”** means the long range
24 water supply plan known as the Seattle
25 Comprehensive Regional Water Plan, adopted by the
26 City in Ordinance 116869, as that Water Supply Plan
may be amended, updated, supplemented or replaced
from time to time.

Section 2. Adoption of Plan of Additions. The
CIP and the Water Supply Plan constitute a system or
plan of additions to or betterments or extensions of
the Municipal Water System (the “Plan of Additions”
and each element thereof an “Addition”). To the
extent not previously specified, adopted and ordered
to be carried out by the City by ordinance, the City
specifies, adopts and orders to be carried out the Plan
of Additions as generally provided for in the Water
Supply Plan and the CIP. The estimated cost of the
Plan of Additions, as near as may be determined, is
declared to be Five Hundred Fifty Million Four
Hundred Thirty-Two Thousand Dollars
(\$550,432,000), of which One Hundred Ten Million
Dollars (\$110,000,000) is expected to be financed
from the proceeds of the Bonds.

The Plan of Additions shall include any
amendments, updates, supplements or replacements
to the CIP or the Water Supply Plan, all of which
automatically shall constitute amendments to the Plan
of Additions. The Plan of Additions also may be
modified, without amending the CIP or the Water
Supply Plan, to include other improvements if the
City determines by ordinance that those amendments
or other improvements constitute a system or plan of
additions to or betterments or extensions of the
Municipal Water System.

The Plan of Additions includes the purchase and
installation of all materials, supplies, appliances,
equipment (including but not limited to data
processing hardware and software and conservation
equipment) and facilities, the acquisition of all
permits, franchises, property and property rights,
other capital assets and all engineering, consulting
and other professional services and studies (whether
performed by the City or by other public or private
entities) necessary or convenient to carry out the Plan
of Additions.

**Section 3. Authorization and Description of
Bonds.** For the purpose of providing all or a part of
the money required to (1) pay part of the cost of
carrying out the Plan of Additions; (2) provide for a
reserve for the Bonds; and (3) pay the costs of issuing
and selling the Bonds, the City shall issue the Bonds
in the principal amount of not to exceed One Hundred
Ten Million Dollars (\$110,000,000). The Bonds may
be issued in one or more series; may be combined
with other Parity Bonds authorized separately; shall
be called “The City of Seattle Water System Revenue
Bonds, 1999, Series B”; may have such different or

1 further designations as determined by the Finance
2 Director or as specified in the Bond Resolution; shall be
3 in the denomination of Five Thousand Dollars
4 (\$5,000) or any integral multiple thereof within a
5 single maturity or such other denomination within a
6 maturity provided by the Bond Resolution; shall be
7 numbered separately, in the manner and with any
8 additional designation as the Bond Registrar deems
9 necessary for the purpose of identification; shall bear
10 interest at such rate or rates (computed on the basis of
11 a 360-day year of twelve 30-day months) as shall be
12 specified and approved by the Bond Resolution,
13 except that the net interest cost shall not exceed a
14 weighted average of eight percent (8.0%) per annum,
15 payable semiannually on such dates as are specified
16 by the Bond Resolution. The Bonds shall mature on
17 the dates and in years and amounts to be specified in
18 the Bond Resolution, except that the final maturity of
19 the Bonds shall not be later than December 31, 2029.
20 The Finance Director may designate Term Bonds
21 with mandatory redemption amounts as he deems
22 necessary or advisable, all to be provided by the
23 Bond Resolution. The Finance Director also may
24 specify in Bond closing documents the respective
25 amounts of each maturity of the Bonds allocated to
26 paying the costs of carrying out the Plan of Additions.

Section 4. Bond Resolution.

The City Council may adopt the Bond Resolution and in that resolution may provide for the matters described in this ordinance and such other matters that the City Council deems necessary and appropriate to carry out the purposes of this ordinance.

The Bond Resolution may provide for Bond Insurance or Reserve Insurance, and conditions or covenants relating thereto, including additional terms, conditions and covenants relating to the Bonds that are required by the Bond Insurer and are consistent with the provisions of this ordinance, including but not limited to restrictions on investments and requirements of notice to and consent of the Bond Insurer.

The Bond Resolution may approve and authorize the execution and delivery on behalf of the City of any agreements consistent with the provisions of this ordinance for which the City's approval is necessary or to which the City is a party and that are related or incidental to the initial issuance and sale of the Bonds, the establishment of the interest rate or rates

on the Bonds, redemption of the Bonds, provision of Bond Insurance, payment agreements and similar agreements.

The City Council may determine and specify by the Bond Resolution the amount, if any, from the proceeds of or accrued interest on the Bonds to be deposited into specified funds, subfunds, accounts and subaccounts. In the absence of such a determination and specification in the Bond Resolution, the Finance Director may make such determination and specification.

Section 5. Registration and Transfer or Exchange of Bonds. The Bonds shall be issued only in registered form as to both principal and interest and recorded on the Bond Register. The Bond Register shall contain the name and mailing address of the registered owner of each Bond and the principal amount and number of each of the Bonds held by each owner.

Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during the fifteen (15) days preceding any principal or interest payment or redemption date (or other record date established by the Bond Resolution).

The City appoints DTC as initial Securities Depository for the Bonds. For so long as DTC is the Securities Depository for the Bonds, DTC or its nominee shall be deemed to be the registered owner for all purposes hereunder, and all references in this ordinance or the Bond Resolution to the registered owners of the Bonds shall mean DTC or its nominee and shall not mean the owners of any beneficial interests in the Bonds. Payments of principal of, premium, if any, and interest on all outstanding Bonds registered in the name of the nominee of DTC, or its registered assign, shall be made as provided in the Letter of Representations.

Bonds executed and delivered in fully immobilized form shall be executed and delivered in the form of one fully-registered immobilized certificate for each series and maturity of the Bonds representing the aggregate principal amount of the

1 Bonds of that series and maturity, which Bonds shall
2 (except as provided below for the discontinuation or
3 substitution of Securities Depository) be registered in
4 the name of Cede & Co., as nominee of DTC;
5 however, if DTC shall request that the Bonds be
6 registered in the name of a different nominee, the
7 Bond Registrar shall exchange all or any portion of
8 the Bonds for an equal aggregate principal amount of
9 Bonds registered in the name of such other nominee
10 or nominees of DTC. No person other than DTC or
11 its nominee shall be entitled to receive from the City
12 or the Bond Registrar any Bond or any other evidence
13 of ownership of the Bonds, or any right to receive any
14 payment in respect thereof, unless DTC or its
15 nominee shall transfer record ownership of all or any
16 portion of the Bonds on the Bond Register, in
17 connection with discontinuing the book entry system
18 as provided below or otherwise.

19 For so long as the Bonds are registered in the
20 name of DTC or any nominee thereof, all payments of
21 the principal or interest with respect to the Bonds
22 shall be made to DTC or its nominee in immediately
23 available funds on the dates provided for such
24 payments under this ordinance and the Bond
25 Resolution and at such times and in the manner
26 provided in the Letter of Representations. Each such
payment to DTC or its nominee shall be valid and
effective to fully discharge all liability of the City or
the Bond Registrar with respect to the principal or
interest with respect to the Bonds to the extent of the
sum or sums so paid. In the event of the redemption
of less than all of the Bonds of any series and
maturity, the Bond Registrar shall not require
surrender by DTC or its nominee of the Bonds so
redeemed, and DTC or its nominee may retain such
Bonds and make an appropriate notation thereon as to
the amount of such partial redemption. DTC shall
deliver to the Bond Registrar, upon request, a written
confirmation of such partial redemption. The records
maintained by the Bond Registrar shall be conclusive
as to the amount of the Bonds of such series and
maturity that have been redeemed.

All transfers of beneficial ownership interests in
Bonds issued in fully immobilized form shall be
effected by the procedures of DTC's participants for
recording and transferring the ownership of beneficial
interests in bonds.

The City and the Bond Registrar may treat DTC
(or its nominee) as the sole and exclusive registered
owner of the Bonds registered in its name for the

purposes of payment of the principal or interest with
respect to those Bonds, selecting Bonds or portions
thereof to be redeemed, giving any notice permitted
or required to be given to registered owners under
this ordinance or the Bond Resolution, registering the
transfer of Bonds, obtaining any consent or other
action to be taken by registered owners of Bonds and
for all other purposes whatsoever; and the City and
the Bond Registrar shall not be affected by any notice
to the contrary. The City and the Bond Registrar
shall not have any responsibility or obligation to any
participant in DTC, any person claiming a beneficial
ownership interest in the Bonds under or through
DTC or any such participant, or any other person
which is not shown on the Bond Register as being a
registered owner of Bonds, with respect to: (i) the
Bonds; (ii) any records maintained by DTC or any
such participant; (iii) the payment by DTC or any
such participant of any amount in respect of the
principal or interest with respect to the Bonds;
(iv) any notice which is permitted or required to be
given to registered owners of Bonds under this
ordinance or the Bond Resolution; (v) the selection
by DTC or any such participant of any person to
receive payment in the event of a partial redemption
of the Bonds; or (vi) any consent given or other
action taken by DTC as registered owner of the
Bonds.

For so long as the Bonds are registered in the
name of DTC or any nominee thereof, all notices
required or permitted to be given to the registered
owners of such Bonds under this ordinance or the
Bond Resolution shall be given to DTC as provided
in the Letter of Representations.

In connection with any notice or other
communication to be provided to registered owners
pursuant to this ordinance or the Bond Resolution by
the City or the Bond Registrar with respect to any
consent or other action to be taken by registered
owners of the Bonds, DTC shall consider the date of
receipt of notice requesting such consent or other
action as the record date for such consent or other
action; however, the City or the Bond Registrar may
establish a special record date for such consent or
other action and shall give DTC notice of such
special record date not less than fifteen (15) calendar
days in advance of such special record date to the
extent practical.

Any successor Bond Registrar, in its written
acceptance of its duties under this ordinance and the

Bond Resolution, shall agree to take any actions necessary from time to time to comply with the requirements of any applicable Letter of Representations.

The book-entry system for registration of the ownership of the Bonds delivered in fully immobilized form may be discontinued at any time if: (i) after notice to the City and the Bond Registrar, DTC determines to resign as Securities Depository for the Bonds; or (ii) after notice to DTC and the Bond Registrar, the City determines that a continuation of the system of book-entry transfers through DTC (or through a successor Securities Depository) is not in the best interests of the City. In each of such events (unless, in the case described in clause (i) above, the City appoints a successor Securities Depository), the Bonds shall be delivered in registered certificate form to such persons, and in such maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the City or the Bond Registrar for the accuracy of such designation. Whenever DTC requests the City and the Bond Registrar to do so, and for so long as clause (ii) above does not apply, the City and the Bond Registrar shall cooperate with DTC in taking appropriate action after reasonable notice to arrange for another Securities Depository to maintain custody of certificates evidencing the Bonds.

Section 6. Mutilated, Lost, Stolen and Destroyed Bonds. In case any Bonds issued hereunder shall become mutilated or be destroyed, stolen or lost, the City shall, if not then prohibited by law, cause to be executed and delivered a new Bond of like amount, interest rate, maturity date, series and tenor in exchange and substitution for and upon cancellation of such mutilated Bonds, or in lieu of and in substitution for such destroyed, stolen or lost Bonds, upon payment by the registered owner thereof of the reasonable expenses and charges of the City and the Bond Registrar in connection therewith, and in the case of a Bond destroyed, stolen or lost, the filing with the Bond Registrar of evidence satisfactory to it that such Bond was destroyed, stolen or lost, and of the ownership thereof, and furnishing the City and the Bond Registrar with indemnity satisfactory to each of them. If the mutilated, destroyed, stolen or lost Bond already has matured or been called for redemption in accordance with its terms it shall not be necessary to issue a new Bond prior to payment. If the provisions of State law at any time differ from the provisions of this Section 6 with

respect to the requirements or procedures for replacing or otherwise handling mutilated, lost, stolen or destroyed Bonds, then the provisions of State law shall prevail.

Section 7. Payment of Bond Principal and Interest. Principal of, premium, if any, and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the interest payment date to the registered owners at the addresses appearing on the Bond Register on the fifteenth (15th) day of the month preceding the interest payment date (or other record date established by the Bond Resolution) (the "Record Date") or, at the request of a registered owner of One Million Dollars (\$1,000,000) or more in aggregate principal amount of Bonds, by wire transfer to an account in the United States designated in writing by such registered owner prior to the Record Date. Principal of and premium, if any, on the Bonds shall be payable upon presentation and surrender of the Bonds by the registered owners at either of the principal offices of the Bond Registrar at the option of the registered owners. Notwithstanding the foregoing, payment of any Bonds registered in the name of DTC or its nominee shall be made in accordance with the Letter of Representations.

The Bonds shall be payable solely out of the Bond Account and shall not be general obligations of the City.

Section 8. Redemption and Open Market Purchase of Bonds.

(a) **Optional Redemption.** All or some of the Bonds may be subject to redemption at the option of the City at the times and on the terms set forth in the Bond Resolution.

(b) **Mandatory Redemption.** The City shall redeem any Term Bonds, if not redeemed under the optional redemption provisions set forth above or purchased in the open market under the provisions set forth below, by lot (in such manner as the Bond Registrar shall determine) at par plus accrued interest on the dates and in the years and principal amounts as set forth in the Bond Resolution.

If the City shall redeem Term Bonds under the optional redemption provisions set forth above or purchase Term Bonds in the open market as set forth below, the Term Bonds so redeemed or purchased

(irrespective of their redemption or purchase price) shall be credited at the par amount thereof against the remaining mandatory redemption requirements in a manner to be determined by the Finance Director or, if no such determination is made, on a pro-rata basis.

(c) **Partial Redemption.** Whenever less than all of the Bonds of a single maturity are to be redeemed, the Bond Registrar shall select the Bonds or portions thereof to be redeemed from the Bonds of that maturity by lot, or in such other manner as the Bond Registrar shall determine, except that, for so long as the Bonds are registered in the name of DTC or its nominee, DTC shall select the Bonds or portions thereof to be redeemed in accordance with the Letter of Representations. In no event shall any Bond be outstanding in a principal amount that is not an authorized denomination.

Portions of the principal amount of any Bond, in integral amounts of Five Thousand Dollars (\$5,000), may be redeemed. If less than all of the principal amount of any Bond is redeemed, upon surrender of that Bond at either of the principal offices of the Bond Registrar, there shall be issued to the registered owner, without charge therefor, a new Bond (or Bonds, at the option of the registered owner) of the same maturity and interest rate in any of the denominations authorized by the Bond Resolution in the aggregate total principal amount remaining unredeemed.

(d) **Open Market Purchase.** The City reserves the right and option to purchase any or all of the Bonds in the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase. The principal amount of Term Bonds purchased pursuant to this Section 8 shall be credited at the par amount thereof against the next mandatory redemption requirement, or as otherwise directed by the Finance Director.

(e) **Bonds to be Canceled.** All Bonds purchased or redeemed under this Section 8 shall be canceled.

Section 9. Notice of Redemption. The City shall cause notice of any intended redemption of Bonds to be given not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and the

requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the registered owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call. In addition, the redemption notice shall be mailed by the Bond Registrar within the same period, postage prepaid, to each of the Rating Agencies at their offices in New York, New York, to any Bond Insurer for the Bonds, and to such other persons and with such additional information as the Finance Director shall determine or as specified in the Bond Resolution, but these additional mailings shall not be a condition precedent to the redemption of Bonds.

Section 10. Failure to Redeem Bonds. If any Bond is not redeemed when properly presented at its maturity or call date, the City shall be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or call date until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Account and the Bond has been called for payment by giving notice of that call to the registered owner of each of those unpaid Bonds.

Section 11. Form and Execution of Bonds. The Bonds shall be typed, photocopied, printed or lithographed on good bond paper in a form consistent with the provisions of this ordinance, the Bond Resolution and State law, shall be signed by the Mayor and Finance Director, either or both of whose signatures may be manual or in facsimile, and the seal of the City or a facsimile reproduction thereof shall be impressed or printed thereon.

Only Bonds bearing a Certificate of Authentication in the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance:

CERTIFICATE OF AUTHENTICATION

This Bond is one of the fully registered The City of Seattle, Washington, Water System Revenue Bonds, 1999, Series B, described in the Bond Ordinance.

WASHINGTON STATE FISCAL AGENCY

1 By: _____
2 Authorized Signature

3 The authorized signing of a Certificate of
4 Authentication shall be conclusive evidence that the
5 Bonds so authenticated have been duly executed,
6 authenticated and delivered and are entitled to the
7 benefits of this ordinance.

8 If any officer whose facsimile signature appears
9 on the Bonds ceases to be an officer of the City
10 authorized to sign bonds before the Bonds bearing his
11 or her facsimile signature are authenticated or
12 delivered by the Bond Registrar or issued by the City,
13 those Bonds nevertheless may be authenticated,
14 delivered and issued and, when authenticated, issued
15 and delivered, shall be as binding on the City as
16 though that person had continued to be an officer of
17 the City authorized to sign bonds. Any Bond also
18 may be signed on behalf of the City by any person
19 who, on the actual date of signing of the Bond, is an
20 officer of the City authorized to sign bonds, although
21 he or she did not hold the required office on the date
22 of issuance of the Bonds.

23 **Section 12. Bond Registrar.** The Bond
24 Registrar shall keep, or cause to be kept, at its
25 principal corporate trust office, sufficient books for
26 the registration and transfer of the Bonds which shall
at all times be open to inspection by the City. The
Bond Registrar is authorized, on behalf of the City, to
authenticate and deliver Bonds transferred or
exchanged in accordance with the provisions of the
Bonds and this ordinance, to serve as the City's
paying agent for the Bonds and to carry out all of the
Bond Registrar's powers and duties under this
ordinance and SMC Chapter 5.10 establishing a
system of registration for the City's bonds and
obligations.

The City reserves the right in its discretion to
appoint special paying agents, registrars or trustees in
connection with the payment of some or all of the
principal of or interest on the Bonds. If a new Bond
Registrar is appointed by the City, notice of the name
and address of the new Bond Registrar shall be
mailed to the registered owners of the Bonds. The
notice may be mailed together with the next interest
payment due on the Bonds, but, to the extent
practicable, shall be mailed not less than fifteen (15)
days prior to a maturity date of the principal or a
mandatory redemption date of any Bond.

The Bond Registrar shall be responsible for its
representations contained in the Bond Registrar's
Certificate of Authentication on the Bonds. The
Bond Registrar may become the owner of Bonds with
the same rights it would have if it were not the Bond
Registrar and, to the extent permitted by law, may act
as depository for and permit any of its officers or
directors to act as members of, or in any other
capacity with respect to, any committee formed to
protect the rights of Bond owners.

Section 13. Bond Account. Ordinance 116705
created the Water Revenue Bond Account (the "Bond
Account") in the Water Fund and further divided the
Bond Account into two subaccounts: the Principal
and Interest Subaccount and the Reserve Subaccount.
So long as any Parity Bonds are outstanding, the City
shall set aside and pay into the Bond Account all
ULID Assessments on their collection (except for
ULID Assessments deposited in a construction
account) and, out of the Net Revenue, certain fixed
amounts without regard to any fixed proportion,
namely:

(a) Into the Principal and Interest
Subaccount (i) upon receipt thereof, the accrued
interest, if any, received by the City from the
purchaser of the Bonds, and (ii) on or before each
interest or principal and interest payment date of any
Parity Bonds at least an amount which, together with
other money on deposit therein, will be sufficient to
pay the interest, or principal and interest, to become
due and payable on the Parity Bonds on that
payment date, including any Parity Bonds subject to
mandatory redemption on that date, and net
payments due on Parity Payment Agreements; and

(b) Into the Reserve Subaccount, in
approximately equal annual payments, amounts
necessary to fund the Reserve Requirement within
five years from the date of issuance of such Parity
Bonds after taking into account the capitalization of
all or any part of the Reserve Requirement. The
City may provide all or any part of the Reserve
Requirement through Reserve Insurance, and the
amount available to be drawn upon under that
Reserve Insurance shall be credited against the
Reserve Requirement, subject to the following:

The Reserve Insurance shall not be cancelable on
less than three (3) years' notice. On receipt of a
notice of cancellation of any Reserve Insurance or
upon notice that the entity providing the Reserve

1 Insurance no longer meets the requirements specified
2 herein, the City shall substitute Reserve Insurance in
3 the amount required to make up the deficiency
4 created in the Reserve Subaccount or in the
5 alternative shall create a special account in the Water
6 Fund and deposit therein, on or before the twenty-
7 fifth (25th) day of each of the thirty-six
8 (36) succeeding calendar months (commencing with
9 the twenty-fifth (25th) day of the calendar month next
10 following the date of the notice) one thirty-sixth
11 (1/36th) of the amount sufficient, together with other
12 money and investments on deposit in the Reserve
13 Subaccount, to equal the Reserve Requirement in
14 effect as of the date the cancellation or
15 disqualification of the entity becomes effective. The
16 required amounts shall be deposited in that special
17 account from money in the Water Fund after making
18 provision for payment of Operation and Maintenance
19 Expenses and for required payments into the Bond
20 Account. Amounts on deposit in that special account
21 shall not be available to pay debt service on Parity
22 Bonds or for any other purpose of the City, and shall
23 be transferred to the Reserve Subaccount on the
24 effective date of any cancellation of a Reserve
25 Insurance to make up all or part of the deficiency
26 caused thereby. Amounts in that special account or in
the Reserve Subaccount may be transferred back to
the Water Fund and used for any purpose if and when
qualifying Reserve Insurance is obtained.

Except for withdrawals therefrom and payments
over time as authorized herein, the Reserve
Subaccount shall be maintained at the Reserve
Requirement, as it is adjusted from time to time, at all
times so long as any Parity Bonds are outstanding.
For the purpose of determining the amount credited to
the Reserve Subaccount, obligations in which money
in the Reserve Subaccount has been invested shall be
valued at the greater of cost or accreted value.

In the event that there shall be a deficiency in the
Principal and Interest Subaccount to meet maturing
installments of either principal or interest or
mandatory redemption requirements, as the case may
be, that deficiency shall be made up from the Reserve
Subaccount by the withdrawal of cash therefrom for
that purpose. Any deficiency created in the Reserve
Subaccount by reason of any such withdrawal shall
within twelve (12) months be made up from ULID
Assessments and Net Revenue available after making
necessary provisions for the required payments into
the Principal and Interest Subaccount.

The money in the Reserve Subaccount may be
applied to the payment of the last outstanding bonds
payable out of the Bond Account, except that any
money in the Reserve Subaccount (including
investment earnings) in excess of the Reserve
Requirement may be withdrawn and deposited in the
Principal and Interest Subaccount and spent for the
purpose of retiring Parity Bonds or may be deposited
in any other fund or account and spent for any other
lawful Municipal Water System purpose. When the
total amount in the Bond Account (including
investment earnings) shall equal the total amount of
principal and interest for all Parity Bonds to the last
maturity thereof, no further payment need be made
into the Bond Account.

The City may provide for the purchase,
redemption or defeasance of any Parity Bonds by the
use of money on deposit in any subaccount in the
Bond Account as long as the money remaining in
those subaccounts is sufficient to satisfy the required
deposits in those subaccounts for the remaining Parity
Bonds.

All money in the Bond Account may be kept in
cash or invested in legal investments maturing, for
investments in the Principal and Interest Subaccount,
not later than the dates when the funds are required
for the payment of principal of or interest on the
Parity Bonds and, for investments in the Reserve
Subaccount, maturing (or subject to redemption, or
repurchase and redemption, at the option of the City)
on a date not later than fifteen (15) years from the
date of investment.

Earnings from investments in the Principal and
Interest Subaccount shall be deposited in that
account. Earnings from investments in the Reserve
Subaccount shall be deposited in that account.
Notwithstanding the provisions for the deposit of
earnings, any earnings that are subject to federal
arbitrage rebate requirements may be withdrawn from
the Bond Account for deposit into a separate fund or
account created for the purpose of compliance with
those rebate requirements.

The City may create sinking fund accounts or
other accounts in the Bond Account for the payment
or securing the payment of Parity Bonds as long as
the maintenance of such accounts does not conflict
with the rights of the owners of such Parity Bonds.

Section 14. Construction Account. There has
been created in the Water Fund an account known as

1 the Water System Construction Account, within
2 which account is created a subaccount to be known as
3 the Water System Construction Subaccount, 1999B
4 (the "Construction Account"). The principal
5 proceeds of the sale of the Bonds remaining after
6 (1) the deposit of accrued interest on the Bonds, if
7 any, into the Principal and Interest Subaccount and
8 (2) the deposit of any proceeds as determined by the
9 Bond Resolution into the Reserve Subaccount, shall
10 be deposited into the Construction Account to be
11 used for the purpose of paying part of the costs of
12 carrying out the Plan of Additions and to pay for the
13 costs of issuance of the Bonds. Until needed to pay
14 such costs, the City may invest principal proceeds and
15 interest thereon temporarily in any legal investment,
16 and the investment earnings may, as determined by
17 the Finance Director, be retained in the Construction
18 Account and be spent for the purposes of that fund or
19 deposited in the Bond Account.

20
21 **Section 15. Rate Stabilization Account.** The
22 Rate Stabilization Account has been created in the
23 Water Fund. The City may at any time, as
24 determined by the City and as consistent with
25 Section 19 of this ordinance, deposit in the Rate
26 Stabilization Account Gross Revenue and any other
money received by the Municipal Water System and
available to be used therefor. The City may withdraw
any or all of the money from the Rate Stabilization
Account for inclusion in the Adjusted Gross Revenue
for any fiscal year of the City. Such deposits or
withdrawals may be made up to and including the
date ninety (90) days after the end of the fiscal year
for which the deposit or withdrawal will be included
as Adjusted Gross Revenue.

No deposit of Gross Revenue shall be made into
the Rate Stabilization Account to the extent that such
deposit would prevent the City from meeting the
Coverage Requirement in the relevant fiscal year.

**Section 16. Finding as to Sufficiency of Gross
Revenue.** The City finds and determines that the
Gross Revenue and benefits to be derived from the
operation and maintenance of the Municipal Water
System of the City at the rates to be charged from
time to time for water and other services and
commodities from the Municipal Water System
consistent with Section 18(b) hereof, will be
sufficient to meet all Operation and Maintenance
Expenses and to permit the setting aside into the
Bond Account out of the Gross Revenue of amounts
sufficient to pay the principal of and interest on the

Bonds and any mandatory redemption requirements
when due. The City further declares that in creating
the Bond Account and in fixing the amounts to be
paid into the Bond Account it has exercised due
regard for Operation and Maintenance Expenses, and
has not bound and obligated itself to set aside and pay
into the Bond Account a greater amount or proportion
of the Gross Revenue than in the judgment of the City
will be available over and above the Operation and
Maintenance Expenses.

**Section 17. Pledge of Net Revenue and Lien
Position.** The Net Revenue of the Municipal Water
System and all money and investments held in the
Bond Account, the Rate Stabilization Account and
the Construction Account (except money and
investments held in a separate fund or account created
for the purpose of compliance with rebate
requirements under the Code), is pledged to the
payment of the Parity Bonds and to make payments
into the Reserve Subaccount required by this
ordinance, the Bond Resolution and Parity Bond
Authorizing Ordinances, and this pledge shall
constitute a lien and charge upon the Net Revenue
prior and superior to any other charges whatsoever.

Section 18. Parity Bond Covenants. The City
covenants and agrees with the owner of each Bond at
any time outstanding, as follows:

(a) **Operation and Maintenance.** It
will at all times maintain, preserve and keep the
properties of the Municipal Water System in good
repair, working order and condition, will make all
necessary and proper additions, betterments, renewals
and repairs thereto, and improvements, replacements
and extensions thereof so that at all times the business
carried on in connection therewith will be properly
and advantageously conducted, and will at all times
operate or cause to be operated the properties of the
Municipal Water System and the business in
connection therewith in an efficient manner and at a
reasonable cost.

(b) **Establishment and Collection
of Rates and Charges.** It will establish, maintain
and collect rates and charges for services and
facilities provided by the Municipal Water System
which will be fair and equitable, and will adjust
those rates and charges from time to time so that:

(1) The Gross Revenue will be
sufficient to (i) pay all Operation and Maintenance
Expenses, (ii) pay when due all amounts that the City

1 is obligated to pay into the Bond Account and the
2 subaccounts therein, and (iii) pay all taxes,
3 assessments or other governmental charges lawfully
4 imposed on the Municipal Water System or the
5 revenue therefrom or payments in lieu thereof and
6 any and all other amounts which the City may now or
7 hereafter become obligated to pay from the Gross
8 Revenue by law or contract; and

9 (2) The Adjusted Net Revenue of the
10 Municipal Water System in each fiscal year will be at
11 least equal to the Coverage Requirement; and

12 (3) Except to aid the poor or infirm and
13 for fire-fighting purposes, it will not furnish or supply
14 or permit the furnishing or supplying of any service
15 or facility in connection with the operation of the
16 Municipal Water System free of charge to any person,
17 firm or corporation, public or private.

18 The failure of the City to comply with
19 subparagraphs (1) and (2) of this paragraph (b) shall
20 not be an Event of Default as defined in Section 28 of
21 this ordinance if the City promptly retains an
22 Independent Consulting Engineer to recommend to
23 the City Council adjustments in the rates of the
24 Municipal Water System necessary to meet the
25 requirements of those subparagraphs and if the City
26 Council adopts the recommended modifications
within one hundred eighty (180) days of the date the
failure became known to the City Council.

27 (c) **Sale, Transfer or Disposition of**
28 **the Municipal Water System.** It will sell, transfer
29 or otherwise dispose of any of the works, plant,
30 properties, facilities or other part of the Municipal
31 Water System or any real or personal property
32 comprising a part of the Municipal Water System
33 only upon approval by ordinance and only consistent
34 with one or more of the following:

35 (1) The City in its discretion may carry
36 out such a sale, transfer or disposition (each, as used
in this subparagraph, a "transfer") if the facilities or
property transferred are not material to the operation
of the Municipal Water System, or shall have become
unserviceable, inadequate, obsolete or unfit to be
used in the operation of the Municipal Water System
or are no longer necessary, material or useful to the
operation of the Municipal Water System; or

37 (2) The City in its discretion may carry
38 out such a transfer if the aggregate depreciated cost
39 value of the facilities or property being transferred

under this subparagraph (2) in any fiscal year
comprises no more than three percent (3%) of the
total assets of the Municipal Water System; or

40 (3) The City in its discretion may carry
41 out such a transfer if the City receives from the
42 transferee an amount equal to the fair market value of
43 the portion of the Municipal Water System
44 transferred. As used in this subparagraph, "fair
45 market value" means the most probable price that a
46 property should bring in a competitive and open
47 market under all conditions requisite to a fair sale, the
48 willing buyer and willing seller each acting prudently
49 and knowledgeably and assuming that the price is not
50 affected by coercion or undue stimulus. The
51 proceeds of the transfer shall be used (i) to promptly
52 redeem, or irrevocably set aside for the redemption
53 of, Parity Bonds, and/or (ii) to provide for part of the
54 cost of additions to and betterments and extensions of
55 the Municipal Water System. Before any such
56 transfer under this subparagraph (3), the City must
57 obtain a certificate of an Independent Consulting
58 Engineer to the effect that in his or her professional
59 opinion, upon such transfer and the use of proceeds of
60 the transfer as proposed by the City, the remaining
61 Municipal Water System will retain its operational
62 integrity and the Adjusted Net Revenue of the
63 Municipal Water System will be at least equal to the
64 Coverage Requirement during the five fiscal years
65 following the fiscal year in which the transfer is to
66 occur, taking into account, (w) the reduction in
67 revenue resulting from the transfer; (x) the use of any
68 proceeds of the transfer for the redemption of Parity
69 Bonds, (y) the Independent Consulting Engineer's
70 estimate of revenue from customers anticipated to be
71 served by any additions to and betterments and
72 extensions of the Municipal Water System financed
73 in part by the proposed portion of the proceeds of the
74 transfer, and (z) any other adjustment permitted in the
75 preparation of a certificate under Section 20(f)(2) of
76 this ordinance. Before such a transfer, the City also
77 must obtain confirmation from each of the Rating
78 Agencies to the effect that the rating then in effect
79 will not be reduced or withdrawn upon such transfer.

80 The amount required to be paid to the City may
81 be reduced by any "equity credits" or similar amounts
82 based on prior capital contributions or other payments
83 to the City which, under any contract between the
84 City and the transferee, are allowed as a setoff against
85 the transfer price that would otherwise be payable to
86 the City.

1 (d) **Liens Upon the Municipal Water**
2 **System.** Except as otherwise
3 provided in this ordinance, it will not at any time
4 create or permit to accrue or to exist any lien or other
5 encumbrance or indebtedness upon the Gross
6 Revenue or any part thereof, prior or superior to the
7 lien thereon for the payment of the Parity Bonds, and
8 will pay and discharge, or cause to be paid and
9 discharged, any and all lawful claims for labor,
10 materials or supplies which, if unpaid, might become
11 a lien or charge upon the Gross Revenue or any part
12 thereof, prior or superior to, or on a parity with, the
13 lien of the Parity Bonds, or which might impair the
14 security of the Parity Bonds.

15 (e) **Books and Accounts.** It
16 will keep proper books, records and accounts with
17 respect to the operations, income and expenditures of
18 the Municipal Water System in accordance with
19 generally accepted accounting practices relating to the
20 municipal utilities and any applicable rules and
21 regulations prescribed by the State, and will cause
22 those books, records and accounts to be audited on an
23 annual basis by the State Auditor (or, if such audit is
24 not made by the State Auditor within two hundred
25 seventy (270) days after the close of any fiscal year of
26 the City, by a certified public accountant selected by
the City). It will prepare annual financial and
operating statements as soon as practicable after the
close of each fiscal year showing in reasonable detail
the financial condition of the Municipal Water System
as of the close of the previous year, and the income
and expenses for such year, including the amounts paid
into the Bond Account and into any and all special
funds or accounts created pursuant to the provisions of
this ordinance, the status of all funds and accounts as
of the end of such year, and the amounts expended for
maintenance, renewals, replacements and capital
additions to the Municipal Water System. Such
statements shall be sent to the owner of any Parity
Bonds upon written request therefor being made to the
City. The City may charge a reasonable cost for
providing such financial statements.

27 (f) **Collection of Delinquent**
28 **Accounts.** On at least an annual
29 basis, it will determine all accounts that are
30 delinquent and will take such actions as the City
31 determines are reasonably necessary to enforce
32 payment of those delinquent accounts.

33 (g) **Maintenance of Insurance.** It at
34 all times will carry fire and extended coverage,

public liability and property damage and such other
forms of insurance with responsible insurers and
with policies payable to the City on such of the
buildings, equipment, works, plants, facilities and
properties of the Municipal Water System as are
ordinarily carried by municipal or privately owned
utilities engaged in the operation of like systems,
and against such claims for damages as are
ordinarily carried by municipal or privately owned
utilities engaged in the operation of like systems, or
it will self-insure or will participate in an insurance
pool or pools with reserves adequate, in the
reasonable judgment of the City, to protect the
Municipal Water System and the owners of the
Parity Bonds against loss.

35 (h) **Condemnation Awards and**
36 **Insurance Proceeds.** If the City
receives any condemnation awards or proceeds of an
insurance policy in connection with any loss of or
damage to any property of the Municipal Water
System, it shall apply the condemnation award or
insurance proceeds, in the City's sole discretion,
either (i) to the cost of replacing or repairing the lost
or damaged properties, (ii) to the payment, purchase
or redemption of Parity Bonds, or (iii) to the cost of
improvements to the Municipal Water System.

37 **Section 19. Flow of Funds.** All ULID
Assessments shall be paid into the Bond Account as
provided by this ordinance. The Gross Revenue of
the Municipal Water System shall be used for the
following purposes only and shall be applied in the
following order of priority:

38 (a) To pay the Operation and
Maintenance Expenses;

39 (b) To pay interest on Parity Bonds and
net payments on Parity Payment Agreements when
due;

40 (c) To pay the principal of Parity
Bonds as it comes due at maturity or as the principal
is required to be paid pursuant to mandatory
redemption requirements applicable to Term Bonds,
and to make payments due under any reimbursement
agreement with a Bond Insurer which agreement
requires those payments to be treated on a parity of
lien with the Parity Bonds;

41 (d) To make all payments required to
be made into the Reserve Subaccount, all payments
required to be made under any agreement relating to

the provision of Reserve Insurance, and payments due under any reimbursement agreement with a Bond Insurer which agreement requires those payments to be treated on a parity of lien with the payments required to be made into the Reserve Subaccount;

(e) To make all payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants or other obligations of the City having a lien upon the revenue of the Municipal Water System junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

(f) To retire by redemption or purchase in the open market any outstanding revenue bonds or other revenue obligations of the Municipal Water System, to make necessary additional betterments, improvements and repairs to or extensions and replacements of the Municipal Water System, to make deposits into the Rate Stabilization Account, or for any other lawful Municipal Water System purposes.

The City may transfer any money from any funds or accounts of the Municipal Water System legally available therefor, except bond redemption funds, refunding escrow funds or defeasance funds, to meet the required payments to be made into the Bond Account.

Section 20. Provisions for Future Parity Bonds. The City reserves the right to issue Future Parity Bonds and to enter into Parity Payment Agreements for purposes of the Municipal Water System or to refund a portion of the Parity Bonds if the following conditions are met and complied with at the time of the issuance of those Future Parity Bonds or entering into the Parity Payment Agreement:

(a) There shall be no deficiency in the Bond Account and no Event of Default with respect to any Parity Bonds as Event of Default is defined in Section 28 of this ordinance shall have occurred and be continuing.

(b) The Parity Bond Authorizing Ordinance shall provide that all assessments and interest thereon that may be levied in any ULID created for the purpose of paying, in whole or in part, the principal of and interest on those Future Parity

Bonds, shall be paid directly into the Bond Account, except for any prepaid assessments permitted by law to be paid into a construction fund or account.

(c) The Parity Bond Authorizing Ordinance shall provide for the payment of the principal thereof and interest thereon out of the Bond Account.

(d) The Parity Bond Authorizing Ordinance shall provide for the payment of amounts into the Bond Account to meet mandatory redemption requirements applicable to any Term Bonds to be issued and for regular payments to be made for the payment of the principal of such Term Bonds on or before their maturity, or, as an alternative, the mandatory redemption of those Term Bonds prior to their maturity date from money in the Principal and Interest Subaccount.

(e) The Parity Bond Authorizing Ordinance shall provide for the deposit into the Reserve Subaccount of (i) an amount, if any, necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds from Future Parity Bond proceeds or other money legally available, or (ii) Reserve Insurance or an amount plus Reserve Insurance necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds, or (iii) amounts necessary to fund the Reserve Requirement from ULID Assessments and Adjusted Net Revenue within five years from the date of issuance of those Future Parity Bonds, in five approximately equal annual payments.

(f) There shall be on file with the City either:

(1) a certificate of the Finance Director demonstrating that during any twelve consecutive calendar months out of the immediately preceding twenty-four (24) calendar months Adjusted Net Revenue was at least equal to the Coverage Requirement for all Parity Bonds plus the Future Parity Bonds proposed to be issued (and assuming that the debt service of the proposed Future Parity Bonds for that twelve-month period was the Average Annual Debt Service for those proposed bonds); or

(2) a certificate of both the Finance Director and the Director of Seattle Public Utilities (who has succeeded to substantially all of the responsibilities of the Superintendent of the Municipal Water System), or any officer who

1 succeeds to substantially all of the responsibilities of
2 either office, that in their opinion the Adjusted Net
3 Revenue for the five fiscal years next following the
4 earlier of (A) the end of the period during which
5 interest on those Future Parity Bonds is to be
6 capitalized or, if no interest is capitalized, the fiscal
7 year in which the Future Parity Bonds are issued, or
8 (B) the date on which substantially all new facilities
9 financed with those Future Parity Bonds are expected
10 to commence operations, such Adjusted Net Revenue
11 further adjusted as provided in paragraphs (i) through
12 (iv) below, will be at least equal to the Coverage
13 Requirement. That certificate may take into account
14 the following adjustments:

15 (i) Any changes in rates in effect and
16 being charged, or rates expected to be charged in
17 accordance with a program of specific rates, rate
18 levels or increases in overall rate revenue approved
19 by ordinance or resolution;

20 (ii) Net revenue from customers of the
21 Municipal Water System who have become
22 customers during the twelve (12) consecutive month
23 period or thereafter, and their estimate of net revenue
24 from any customers to be connected to the Municipal
25 Water System who have paid the required connection
26 charges, adjusted to reflect one year's net revenue
from those customers;

(iii) Their estimate of net revenue from
customers anticipated to be served by facilities or
improvements financed in substantial part by those
Future Parity Bonds (or additional Parity Bonds
expected to be issued during the five-year period);
and

(iv) Net revenue from any person, firm,
corporation or municipal corporation under any
executed contract for water or other utility service,
which revenue was not included in the historical Net
Revenue of the Municipal Water System.

If the Future Parity Bonds proposed to be issued
are for the sole purpose of refunding Parity Bonds, no
such coverage certification shall be required if the
Adjusted Annual Debt Service on the Parity Bonds
after the issuance of the Future Parity Bonds is not,
for any year in which the Parity Bonds being
refunded were outstanding, more than Five Thousand
Dollars (\$5,000) over the Adjusted Annual Debt
Service on the Parity Bonds prior to the issuance of
those Future Parity Bonds.

Nothing contained herein shall prevent the City
from issuing Future Parity Bonds to refund maturing
Parity Bonds, money for the payment of which is not
otherwise available, or revenue bonds that are a
charge or lien upon the Gross Revenue subordinate to
the charge or lien of the Parity Bonds, or from
pledging the payment of ULID assessments into a
bond redemption fund created for the payment of the
principal of and interest on those junior lien bonds as
long as such ULID assessments are levied for
improvements constructed from the proceeds of those
junior lien bonds.

Section 21. Reimbursement Obligations. If
the City elects to meet the Reserve Requirement or
any portion thereof through the use of Reserve
Insurance or elects to secure any issue of Parity
Bonds through the use of Bond Insurance, the City
may contract with the entity providing such Reserve
Insurance or Bond Insurance to the effect that the
City's reimbursement obligation, if any, to such entity
ranks on a parity of lien with the Parity Bonds.

If provided by the Bond Resolution, if the
principal of, interest or mandatory redemption
requirements due on the Bonds is paid by a Bond
Insurer pursuant to a Bond Insurance policy, the
Bonds shall not be considered paid by the City, and
the covenants, agreements and other obligations of
the City to the registered owners shall continue to
exist and the Bond Insurer shall be subrogated to the
rights of the registered owners.

Section 22. Separate Utility Systems. The City
may create, acquire, construct, finance, own and
operate one or more additional systems for water
supply, transmission or other commodity or service.
The revenue of that separate utility system shall not
be included in the Gross Revenue of the Municipal
Water System and may be pledged to the payment of
revenue obligations issued to purchase, construct,
condemn or otherwise acquire or expand the separate
utility system. Neither the Gross Revenue nor the Net
Revenue of the Municipal Water System shall be
pledged by the City to the payment of any obligations
of a separate utility system except (1) as a Contract
Resource Obligation upon compliance with
Section 23 hereof and/or (2) with respect to the Net
Revenue, on a basis subordinate to the lien of the
Parity Bonds on that Net Revenue.

Section 23. Contract Resource Obligations.
The City may at any time enter into one or more

Contract Resource Obligations for the acquisition, from facilities to be constructed, of water supply, transmission or other commodity or service relating to the Municipal Water System. The City may determine that, and may agree under a Contract Resource Obligation to provide that, all payments under that Contract Resource Obligation (including payments prior to the time that water supply or transmission or other commodity or service is being provided, or during a suspension or after termination of supply or service) shall be Operation and Maintenance Expenses if the following requirements are met at the time such a Contract Resource Obligation is entered into:

(a) No Event of Default as defined in Section 28 of this ordinance has occurred and is continuing.

(b) There shall be on file a certificate of an Independent Consulting Engineer stating that (i) the payments to be made by the City in connection with the Contract Resource Obligation are reasonable for the supply or transmission rendered; (ii) the source of any new supply, and any facilities to be constructed to provide the supply or transmission, are sound from a water or other commodity supply or transmission planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely to provide supply or transmission no later than a date set forth in the Independent Consulting Engineer's certification; and (iii) the Adjusted Net Revenue (further adjusted by the Independent Consulting Engineer's estimate of the payments to be made in accordance with the Contract Resource Obligation) for the five fiscal years following the year in which the Contract Resource Obligation is incurred, as such Adjusted Net Revenue is estimated by the Independent Consulting Engineer in accordance with the provisions of and adjustments permitted in Section 20(f)(2) of this ordinance, will be at least equal to the Coverage Requirement.

Payments required to be made under Contract Resource Obligations shall not be subject to acceleration.

Nothing in this Section 23 shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from existing facilities and from treating those payments as Operation and

Maintenance Expenses. Nothing in this Section 23 shall be deemed to prevent the City from entering into other agreements for the acquisition of water supply, transmission or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto, such payments constituting a lien and charge on Net Revenue subordinate to that of Parity Bonds.

Section 24. Preservation of Tax Exemption for Interest on Bonds. The City covenants that it will take all actions consistent with the terms of the Bonds, this ordinance and the Bond Resolution reasonably within its power and necessary to prevent interest on the Bonds from being included in gross income for federal income tax purposes and it will neither take any action nor make or permit any use of the proceeds of the Bonds or other funds of the City treated as proceeds of the Bonds at any time during the term of the Bonds which will cause interest on the Bonds to be included in gross income for federal income tax purposes.

The City has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the City is a bond issuer whose arbitrage certifications may not be relied upon.

Section 25. Continuing Disclosure. The City shall undertake to provide for the benefit of holders of the Bonds disclosure of certain financial information and operating data of the type included in the final official statement for the Bonds, as well as disclosure of certain material events respecting the Bonds, in the manner and to the extent required by United States Securities and Exchange Commission Rule 15c2-12(b)(5). The particular terms of the Undertaking shall be set forth in the Bond Resolution.

Section 26. Advance Refunding or Defeasance of Bonds. The City may issue advance refunding bonds pursuant to the laws of the State or use money available from any other lawful source to pay the principal of and interest on the Bonds, or such portion thereof included in a refunding or defeasance plan, as the same become due and payable and to redeem and retire, release, refund or defease the Bonds (the "Defeased Bonds") and to pay the costs of such refunding or defeasance. In the event that money and/or Government Obligations sufficient in amount, together with known earned income from the investments thereof, to redeem and retire, release, refund or defease the defeased Bonds in accordance

1 with their terms, are set aside irrevocably in a special
2 fund for and pledged irrevocably to such redemption,
3 retirement or defeasance (the "trust account"), then
4 all right and interest of the owners of the defeased
5 Bonds in the covenants of this ordinance and in the
6 Net Revenue and the funds and accounts pledged to
7 the payment of such defeased Bonds, other than the
8 right to receive the funds so set aside and pledged,
9 thereafter shall cease and become void. Such owners
10 thereafter shall have the right to receive payment of
11 the principal of and interest or redemption price on
12 the defeased Bonds from the trust account.

13 After the establishing and full funding of such a
14 trust account, the City then may apply any money in
15 any other fund or account established for the payment
16 or redemption of the defeased Bonds to any lawful
17 purposes as it shall determine, subject only to the
18 rights of the owners of any other Parity Bonds.

19 If the refunding plan provides that the defeased
20 Bonds to be issued be secured by money and/or
21 Government Obligations pending the prior
22 redemption of the defeased Bonds and if such
23 refunding plan also provides that certain money
24 and/or Government Obligations are pledged
25 irrevocably for the prior redemption of the defeased
26 Bonds included in that refunding plan, then only the
debt service on the Bonds which are not defeased
Bonds and the refunding bonds, the payment of which
is not so secured by the refunding plan, shall be
included in the computation of the Coverage
Requirement for the issuance of Future Parity Bonds
and the annual computation of the Coverage
Requirement for determining compliance with the
rate covenants.

Section 27. Amendatory and Supplemental Ordinances.

(a) This ordinance shall not be modified or amended in any respect subsequent to the initial issuance of the Bonds, except as provided in and in accordance with and subject to the provisions of this Section 27.

(b) The City, from time to time, and at any time, without the consent of or notice to the owners of the Bonds, may pass supplemental or amendatory ordinances as follows:

(1) To cure any formal defect, omission, inconsistency or ambiguity in this ordinance in a manner not adverse to the owner of any Parity Bond;

(2) To impose upon the Bond Registrar (with its consent) for the benefit of the owners of the Bonds any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with this ordinance as therefore in effect;

(3) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance, other covenants, agreements, limitations and restrictions to be observed by the City which are not contrary or inconsistent with this ordinance as therefore in effect;

(4) To confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by this ordinance of any other money, securities or funds;

(5) To authorize different denominations of the Bonds and to make correlative amendments and modifications to this ordinance regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(6) To modify, alter, amend or supplement this ordinance in any other respect which is not materially adverse to the owners of the Parity Bonds and which does not involve a change described in Section 27(c);

(7) Because of change in federal law or rulings, to maintain the exclusion from gross income of the interest on the Bonds from federal income taxation; and

(8) To add to the covenants and agreements of, and limitations and restrictions upon, the City in this ordinance, other covenants, agreements, limitations and restrictions to be observed by the City which are requested by a Bond Insurer or provider of Reserve Insurance and which are not materially adverse to the owners of the Parity Bonds.

Before the City shall adopt any such supplemental ordinance pursuant to this Section 27(b), there shall have been delivered to the City and the Bond Registrar an opinion of Bond Counsel, stating that such supplemental ordinance is authorized or permitted by this ordinance and, upon

1 the execution and delivery thereof, will be valid and
2 binding upon the City in accordance with its terms
3 and will not adversely affect the exclusion from gross
income for federal income tax purposes of interest on
the Bonds.

4 (c) Except for any supplemental
5 ordinance entered into pursuant to Section 27(b),
6 subject to the terms and provisions contained in this
7 Section 27(c) and not otherwise, registered owners of
8 not less than sixty percent (60%) in aggregate
9 principal amount of the Parity Bonds shall have the
10 right from time to time to consent to and approve the
11 passage by the City of any supplemental ordinance
deemed necessary or desirable by the City for the
purpose of modifying, altering, amending,
supplementing or rescinding, in any particular, any of
the terms or provisions contained in this ordinance;
except that, unless approved in writing by the
registered owners of all Parity Bonds, nothing
contained in this Section 27 shall permit, or be
construed as permitting:

12 (i) A change in the times, amounts or
13 currency of payment of the principal of or interest on
14 any outstanding Parity Bond, or a reduction in the
15 principal amount or redemption price of any
outstanding Parity Bond or a change in the
redemption price of any outstanding Parity Bond or a
change in the method of determining the rate of
interest thereon, or

16 (ii) A preference or priority of any
17 Parity Bond or Bonds or any other bond or bonds, or

18 (iii) A reduction in the aggregate
19 principal amount of Parity Bonds, the consent of the
registered owners of which is required for any such
supplemental ordinance.

20 (2) If at any time the City shall pass
21 any supplemental ordinance for any of the purposes
22 of this Section 27(c), the Bond Registrar shall cause
23 notice of the proposed supplemental ordinance to be
24 given by first-class United States mail to all registered
25 owners of the Parity Bonds, to any Bond Insurer, and
26 to the Rating Agencies if the Bonds are rated by those
agencies. Such notice shall briefly set forth the nature
of the proposed supplemental ordinance and shall
state that a copy thereof is on file at the office of the
Bond Registrar for inspection by all registered
owners of the Parity Bonds.

(3) Within two years after the date of
the mailing of such notice, the City may adopt such
supplemental ordinance in substantially the form
described in such notice, but only if there shall have
first been delivered to the Bond Registrar (i) the
required consents, in writing, of the registered owners
of the Parity Bonds, and (ii) an opinion of bond
counsel stating that such supplemental ordinance is
authorized or permitted by this ordinance and, upon
the execution and delivery thereof, will be valid and
binding upon the City in accordance with its terms
and will not adversely affect the exclusion from gross
income for federal income tax purposes of interest on
the Parity Bonds.

(4) If registered owners of not less than
the percentage of Parity Bonds required by this
Section 27(c) shall have consented to and approved
the execution and delivery thereof as herein provided,
no owner of the Parity Bonds shall have any right to
object to the passage of such supplemental ordinance,
or to object to any of the terms and provisions
contained therein or the operation thereof, or in any
manner to question the propriety of the passage
thereof, or to enjoin or restrain the City or the Bond
Registrar from passing the same or from taking any
action pursuant to the provisions thereof.

(d) Upon the execution and delivery of
any supplemental ordinance pursuant to the
provisions of this Section 27, this ordinance shall be,
and be deemed to be, modified and amended in
accordance therewith, and the respective rights, duties
and obligations under this ordinance of the City, the
Bond Registrar and all owners of Parity Bonds, shall
thereafter be determined, exercised and enforced
under this ordinance subject in all respects to such
modifications and amendments.

Section 28. Defaults and Remedies.

(a) **Events of Default.** The following
shall constitute "Events of Default" with respect to
the Bonds:

(1) If a default is made in the payment
of the principal of or interest on any of the Bonds
when the same shall become due and payable; or

(2) If the City defaults in the
observance and performance of any other of the
covenants, conditions and agreements on the part of
the City set forth in this ordinance or any covenants,
conditions or agreements on the part of the City

1 contained in any Parity Bond Authorizing Ordinance
2 and such default or defaults have continued for a
3 period of six months after the City has received from
4 the Bond Owners' Trustee (as defined below) or from
5 the registered owners of not less than twenty-five
6 percent (25%) in principal amount of the Parity
7 Bonds, a written notice specifying and demanding the
8 cure of such default. However, if the default in the
9 observance and performance of any other of the
10 covenants, conditions and agreements is one which
11 cannot be completely remedied within the six (6)
12 months after written notice has been given, it shall not
13 be an Event of Default with respect to the Bonds as
14 long as the City has taken active steps within the six
15 (6) months after written notice has been given to
16 remedy the default and is diligently pursuing such
17 remedy.

18 (3) If the City files a petition in
19 bankruptcy or is placed in receivership under any
20 state or federal bankruptcy or insolvency law.

21 (b) **Bond Owners' Trustee.** So long
22 as such Event of Default has not been remedied, a
23 trustee (the "Bond Owners' Trustee") may be
24 appointed by the registered owners of twenty-five
25 percent (25%) in principal amount of the Parity
26 Bonds, by an instrument or concurrent instruments in
writing signed and acknowledged by such registered
owners of the Parity Bonds or by their attorneys-in-
fact duly authorized and delivered to such Bond
Owners' Trustee, notification thereof being given to
the City. That appointment shall become effective
immediately upon acceptance thereof by the Bond
Owners' Trustee. Any Bond Owners' Trustee
appointed under the provisions of this Section 28(b)
shall be a bank or trust company organized under the
laws of the State of Washington or the State of New
York or a national banking association. The bank or
trust company acting as Bond Owners' Trustee may
be removed at any time, and a successor Bond
Owners' Trustee may be appointed, by the registered
owners of a majority in principal amount of the Parity
Bonds, by an instrument or concurrent instruments in
writing signed and acknowledged by such registered
owners of the Bonds or by their attorneys-in-fact duly
authorized. The Bond Owners' Trustee may require
such security and indemnity as may be reasonable
against the costs, expenses and liabilities that may be
incurred in the performance of its duties.

In the event that any Event of Default in the sole
judgment of the Bond Owners' Trustee is cured and

the Bond Owners' Trustee furnishes to the City a
certificate so stating, that Event of Default shall be
conclusively deemed to be cured and the City, the
Bond Owners' Trustee and the registered owners of
the Parity Bonds shall be restored to the same rights
and position which they would have held if no Event
of Default had occurred.

The Bond Owners' Trustee appointed in the
manner herein provided, and each successor thereto,
is declared to be a trustee for the registered owners of
all the Parity Bonds and is empowered to exercise all
the rights and powers herein conferred on the Bond
Owners' Trustee.

(c) **Suits at Law or in Equity.** Upon
the happening of an Event of Default and during the
continuance thereof, the Bond Owners' Trustee may,
and upon the written request of the registered owners
of not less than twenty-five percent (25%) in principal
amount of the Parity Bonds outstanding shall, take
such steps and institute such suits, actions or other
proceedings, all as it may deem appropriate for the
protection and enforcement of the rights of the
registered owners of the Parity Bonds, to collect any
amounts due and owing to or from the City, or to
obtain other appropriate relief, and may enforce the
specific performance of any covenant, agreement or
condition contained in this ordinance or in any of the
Parity Bonds.

Nothing contained in this Section 28 shall, in any
event or under any circumstance, be deemed to
authorize the acceleration of maturity of principal on
the Parity Bonds, and the remedy of acceleration is
expressly denied to the registered owners of the
Parity Bonds under any circumstances including,
without limitation, upon the occurrence and
continuance of an Event of Default.

Any action, suit or other proceedings instituted
by the Bond Owners' Trustee hereunder shall be
brought in its name as trustee for the Bond owners
and all such rights of action upon or under any of the
Parity Bonds or the provisions of this ordinance may
be enforced by the Bond Owners' Trustee without the
possession of any of those Parity Bonds and without
the production of the same at any trial or proceedings
relative thereto except where otherwise required by
law. Any such suit, action or proceeding instituted by
the Bond Owners' Trustee shall be brought for the
ratable benefit of all of the registered owners of those
Parity Bonds, subject to the provisions of this

ordinance. The respective registered owners of the Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bond Owners' Trustee the true and lawful trustee of the respective registered owners of those Parity Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to execute any paper or documents for the receipt of money; and to do all acts with respect thereto that the registered owner himself or herself might have done in person. Nothing herein shall be deemed to authorize or empower the Bond Owners' Trustee to consent to accept or adopt, on behalf of any registered owner of the Parity Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or any right of any owner thereof, or to authorize or empower the Bond Owners' Trustee to vote the claims of the registered owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the City is a party.

(d) Application of Money Collected by Bond Owners' Trustee. Any money collected by the Bond Owners' Trustee at any time pursuant to this Section 28 shall be applied in the following order of priority:

(i) first, to the payment of the charges, expenses, advances and compensation of the Bond Owners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys; and

(ii) second, to the payment to the persons entitled thereto of all installments of interest then due on the Parity Bonds in the order of maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

(iii) third, to the payment to the persons entitled thereto of the unpaid principal amounts of any Parity Bonds which shall have become due (other than Parity Bonds previously called for redemption for the payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts

due on the same date, then to the payment thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference.

(e) Duties and Obligations of Bond Owners' Trustee. The Bond Owners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. During an Event of Default, the Bond Owners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bond Owners' Trustee shall have no liability for any act or omission to act hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bond Owners' Trustee shall be determined solely by the express provisions of this ordinance, and no implied powers, duties or obligations of the Bond Owners' Trustee shall be read into this ordinance.

The Bond Owners' Trustee shall not be required to expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers as the Bond Owners' Trustee, except as may result from its own negligent action, its own negligent failure to act or its own willful misconduct.

The Bond Owners' Trustee shall not be bound to recognize any person as a registered owner of any Bond until his title thereto, if disputed, has been established to its reasonable satisfaction.

The Bond Owners' Trustee may consult with counsel and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel. The Bond Owners' Trustee shall not be answerable for any neglect or default of any person, firm or corporation employed and selected-by it with reasonable care.

1 (f) **Suits by Individual Bond Owners**
2 **Restricted.** No owner of any one or more of Parity
3 Bonds shall have any right to institute any action, suit
4 or proceeding at law or in equity for the enforcement
5 of same unless:

6 (i) an Event of Default has happened
7 and is continuing;

8 (ii) a Bond Owners' Trustee has been
9 appointed;

10 (iii) such owner previously shall have
11 given to the Bond Owners' Trustee written notice of
12 the Event of Default on account of which such suit,
13 action or proceeding is to be instituted;

14 (iv) the registered owners of twenty-five
15 percent (25%) in principal amount of the Parity
16 Bonds, after the occurrence of such Event of Default,
17 has made written request of the Bond Owners'
18 Trustee and have afforded the Bond Owners' Trustee
19 a reasonable opportunity to institute such suit, action
20 or proceeding;

21 (v) there here have been offered to the
22 Bond Owners' Trustee security and indemnity
23 satisfactory to it against the costs, expenses and
24 liabilities to be incurred therein or thereby; and

25 (vi) the Bond Owners' Trustee has
26 refused or neglected to comply with such request
27 within a reasonable time.

28 No owner of any Parity Bond shall have any right
29 in any manner whatever by his action to affect or
30 impair the obligation of the City to pay from the Net
31 Revenue the principal of and interest on such Parity
32 Bonds to the respective registered owners thereof
33 when due.

34 (g) **Failure to Comply With**
35 **Undertaking.** Notwithstanding anything in this
36 Section 28 to the contrary, the failure of the City or
37 any obligated person to comply with the Undertaking
38 adopted by the Bond Resolution pursuant to
39 Section 25 shall not constitute an Event of Default
40 hereunder, and the sole remedy of any holder of a
41 Bond shall be to seek an order of specific
42 performance from an appropriate court to compel the
43 City to comply with the Undertaking.

44 **Section 29. Sale of Bonds.** The Finance
45 Director may provide for the sale of the Bonds by
46 public sale or by a negotiated sale with the
47 underwriters chosen through a selection process

determined by the Finance Director. The terms of
that sale shall be consistent with this ordinance and
confirmed by the Bond Resolution. The Bonds will
be delivered, at the City's expense, to the purchasers
as provided in the Bond Resolution immediately upon
payment to the City of the purchase price plus
accrued interest to the date of closing in immediately
available federal funds in Seattle, Washington, or at
another time or place upon which the Finance
Director and the purchasers may mutually agree at the
purchasers' expense.

CUSIP numbers will be printed on the Bonds,
but neither failure to print CUSIP numbers on any
Bond nor error with respect thereto shall constitute
cause for a failure or refusal by the Purchasers to
accept delivery of and pay for the Bonds in
accordance with the purchase offer. All expenses in
relation to the printing of CUSIP numbers on the
Bonds shall be paid by the City, but the fee of the
CUSIP Service Bureau for the assignment of those
numbers shall be the responsibility of and shall be
paid by the purchasers.

The City will cause the Bonds to be typed,
photocopied, printed or lithographed, sealed and
executed and will furnish the approving legal opinion
of Bond Counsel, the opinion also being printed on
each Bond unless the Bond is typed or photocopied.

Section 30. Temporary Bond. Pending the
printing, execution and delivery to the purchasers of
the definitive Bonds, the City may cause to be
executed and delivered to the purchasers a single
temporary Bond in the total principal amount of the
Bonds. The temporary Bond shall bear the same date
of issuance, interest rates, principal payment dates
and terms and covenants as the definitive Bonds, shall
be issued as a fully registered Bond in the name of the
purchasers, and shall be in such form as acceptable to
the purchasers. Such temporary Bond shall be
exchanged for the definitive Bonds as soon as the
same are printed, executed and available for delivery.

Section 31. Bonds Negotiable. The Bonds
shall be negotiable instruments to the extent provided
by RCW 62A.8-102 and 62A.8-105.

Section 32. General Authorization. The
Mayor and the Finance Director of the City and each
of the other appropriate officers of the City are each
authorized and directed to do everything as in their
judgment may be necessary, appropriate or desirable
in order to carry out the terms and provisions of, and

1 complete the transactions contemplated by, this
2 ordinance. In particular, and without limitation, the
3 Finance Director may, in his or her discretion and
4 without further action by the City Council, (i) deem
5 final any preliminary official statement or official
statement relating to the Bonds, (ii) comply with any
continuing disclosure requirements applicable to the
Bonds and (iii) change the Bond Registrar or any
securities depository appointed for the Bonds.

6 **Section 33. Severability.** The provisions of this
7 ordinance are declared to be separate and severable.
8 If a court of competent jurisdiction, all appeals
9 having been exhausted or all appeal periods having
10 run, finds any provision of this ordinance to be
11 invalid or unenforceable as to any person or
12 circumstance, such offending provision shall, if
13 feasible, be deemed to be modified to be within the
limits of enforceability or validity. However, if the
offending provision cannot be so modified, it shall be
null and void with respect to the particular person or
circumstance, and all other provisions of this
ordinance in all other respects, and the offending
provision with respect to all other persons and all
other circumstances, shall remain valid and
enforceable.

14 **Section 34. Ratification of Prior Acts.** Any
15 action taken consistent with the authority but prior to
16 the effective date of this ordinance, including, if
17 applicable, but not limited to giving notices of the
sale of Bonds, adopting the Bond Resolution,
executing contracts, making fund transfers and paying
warrants, is ratified, approved and confirmed.

18 **Section 35. Section Headings.** The section
19 headings in this ordinance are used for convenience
only and shall not constitute a substantive portion of
this ordinance.

20 **Section 36. Effective Date.** This ordinance
21 shall take effect and be in force thirty (30) days from
22 and after its approval by the Mayor, but if not
23 approved by the Mayor and returned by the Mayor
within ten (10) days after presentation, it shall take
effect as provided by Municipal Code
Section 1.04.020.

1 Passed by the City Council the 7th day of September, 1999, and signed by me in open session in authentication
2 of its passage this 7th day of September, 1999.

3 s/Sue Donaldson
4 President of the City Council

5 Approved by me this 8th day of September, 1999.

6 s/Due Donaldson
7 Mayor Pro Tem

8
9 Filed by me this 9th day of September, 1999.

10 s/Judith E. Pippin
11 City Clerk

12 (SEAL)

Appendix B

Form of Bond Counsel Opinion



FORM OF BOND COUNSEL OPINION

The City of Seattle, Washington

Re: The City of Seattle, Washington \$110,000,000 Water System Revenue Bonds, 1999, Series B

We have served as bond counsel to The City of Seattle, Washington (the “City”), in connection with the issuance of the above-referenced bonds (the “Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance 119649 and Resolution 30057 of the City (collectively, the “Bond Legislation”) to provide the funds to pay part of the cost of carrying out a plan of additions and betterments to and extensions of the Municipal Water System, to satisfy the Reserve Requirement, and to pay the costs of issuance and sale of the Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of the capitalized terms used and not otherwise defined herein.

The Bonds are dated October 1, 1999 and are in the denominations, bear interest payable on the dates and at the rates, mature at the times and in the amounts, and have such prepayment or redemption and other provisions as are set forth in the Bonds and in the Bond Legislation.

The Bonds are special limited obligations of the City payable solely out of the Water Revenue Bond Account (the “Bond Account”), into which account the City irrevocably has bound itself to pay all ULID Assessments upon their collection (except for ULID Assessments deposited in a construction account) and certain fixed amounts out of the Net Revenue of the Municipal Water System, without regard to any fixed proportion, namely, amounts sufficient to pay the principal of and interest on the Parity Bonds as they respectively become due and to satisfy the Reserve Requirement, all at the times and in the manner set forth in the Bond Legislation.

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ANCHORAGE
Alaska

BELLEVUE
Washington

PORTLAND
Oregon

SEATTLE
Washington

SPOKANE
Washington

The Net Revenue of the Municipal Water System and all money and investments in the Bond Account, including the Reserve Subaccount therein, the Rate Stabilization Account and the Construction Account (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code) have been pledged to the payment of the Parity Bonds and to make payments into the Bond Account required by the Bond Ordinance and Parity Bond Authorizing Ordinances, and this pledge constitutes a lien and charge upon the Net Revenue on a parity of lien and charge with the Outstanding Parity Bonds and any Future Parity Bonds and prior and superior to any other charges whatsoever.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;
2. The Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and other ordinances and resolutions of the City relating thereto;
3. The Bonds constitute valid obligations of the City payable solely out of the Net Revenue of the Municipal Water System and money in the Bond Account, including the Reserve Subaccount therein, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by principles of equity if equitable remedies are sought;
4. The Bonds are not general obligations of the City; and
5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative

minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

FOSTER PEPPER & SHEFELMAN PLLC

Appendix C

1998 Audited Financial Statements of the Water System

CITY OF SEATTLE, SEATTLE PUBLIC UTILITIES - WATER FUND
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1998 AND 1997
TOGETHER WITH AUDITORS' REPORT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Managing Director of Seattle Public Utilities,
City of Seattle:

We have audited the accompanying balance sheets of the City of Seattle, Seattle Public Utilities - Water Fund (the Fund) as of December 31, 1998 and 1997, and the related statements of revenues, expenses and changes in accumulated net revenues and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Seattle Public Utilities - Water Fund as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The Year 2000 supplementary information on page 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin 98-1 as amended are not sufficiently specific to permit meaningful results from the prescribed procedures. In addition, we do not provide assurance that the Fund is or will become Year 2000 compliant, that the Fund's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Fund does business are or will be Year 2000 compliant.

Arthur Andersen LLP

Seattle, Washington,
March 26, 1999

CITY OF SEATTLE, SEATTLE PUBLIC UTILITIES - WATER FUND

BALANCE SHEETS -- DECEMBER 31, 1998 AND 1997

	<u>ASSETS</u>	
	<u>1998</u>	<u>1997</u>
UTILITY PLANT, net at cost	\$551,577,287	\$470,230,062
NONOPERATING PROPERTIES	600,971	600,971
RATE STABILIZATION FUND:		
Deposits with City Treasurer	-	5,800,000
CONSTRUCTION FUND:		
Deposits with City Treasurer	27,574,384	31,653,263
Amount payable to Operating Fund, net	(6,956,095)	(3,698,286)
	20,618,289	27,954,977
CURRENT ASSETS:		
Deposits with City Treasurer - Operating Fund	1,346,939	677,623
Customer and vendor deposits	2,087,883	508,450
Water sales receivable	8,543,753	8,170,064
Interfund interest receivable	172,373	167,371
Current portion of other receivables	4,856,141	5,624,750
Amount receivable from Construction Fund, net	6,956,095	3,698,286
Materials and supplies, at average cost	4,264,740	4,191,070
	28,227,924	23,037,614
DEFERRED CHARGES AND OTHER:		
Other deferred assets	27,051,915	22,782,114
Other receivables, net of current portion	1,009,063	1,166,430
	28,060,978	23,948,544
	\$629,085,449	\$551,572,168
	=====	=====

EQUITY AND LIABILITIES

	<u>1998</u>	<u>1997</u>
EQUITY:		
Accumulated net revenues	\$ 90,236,750	\$ 89,845,592
Contributions in aid of construction-		
Grants, assessments and other	110,787,379	105,510,627
Local Improvement Districts	25,212,728	25,212,728
	-----	-----
	226,236,857	220,568,947
	-----	-----
COMMITMENTS AND CONTINGENCIES		
(Note 9)		
REVENUE BONDS:		
Revenue bonds, due serially	389,740,000	319,930,000
Less- Current maturities	(12,000,000)	(10,190,000)
Less- Bond discounts, net	(5,796,416)	(5,535,237)
Less- Deferred charge related to advance refunding and defeasance of bonds	(8,860,187)	(9,613,933)
	-----	-----
	363,083,397	294,590,830
	-----	-----
OTHER LONG-TERM LIABILITIES:		
Public Works Trust Loan, net of current portion	1,655,034	1,773,251
Other	4,134,100	6,056,152
	-----	-----
	5,789,134	7,829,403
	-----	-----
CURRENT LIABILITIES:		
Accounts payable, accrued taxes, payroll and other	18,607,312	15,950,958
Accrued bond interest	3,250,532	2,323,813
Current maturities of revenue bonds	12,000,000	10,190,000
Current portion of Public Works Trust Loan	118,217	118,217
	-----	-----
	33,976,061	28,582,988
	-----	-----
	\$629,085,449	\$551,572,168
	=====	=====

The accompanying notes are an integral part of these balance sheets.

CITY OF SEATTLE, SEATTLE PUBLIC UTILITIES - WATER FUND

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 81,310,666	\$ 70,792,762
Cash paid to suppliers and employees	(39,783,702)	(33,097,255)
Cash paid for taxes	(8,509,317)	(7,638,123)
	-----	-----
Net cash from operating activities	33,017,647	30,057,384
	-----	-----
CASH FLOWS FROM CAPITAL AND RELATED FINANCING		
ACTIVITIES:		
Cash proceeds from sale of revenue bonds	78,757,590	52,214,645
Acquisition and construction of utility plant and		
additions to deferred assets	(101,242,015)	(44,062,994)
Principal paid on revenue bonds and other long-term		
debt	(10,308,217)	(9,378,216)
Interest paid	(17,023,807)	(14,552,771)
Contributions in aid of construction	5,276,752	5,123,704
	-----	-----
Net cash from capital and related financing		
activities	(44,539,697)	(10,655,632)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	2,355,878	2,253,127
Proceeds from sale of timber	-	77,813
Other, net	(43,391)	(536,256)
	-----	-----
Net cash from investing activities	2,312,487	1,794,684
	-----	-----
NET (DECREASE) INCREASE IN DEPOSITS WITH CITY TREASURER	(9,209,563)	21,196,436
DEPOSITS WITH CITY TREASURER, beginning of year	38,130,886	16,934,450
	-----	-----
DEPOSITS WITH CITY TREASURER, end of year	\$ 28,921,323	\$ 38,130,886
	=====	=====

	1998	1997
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FROM OPERATING ACTIVITIES:		
Net operating revenues	\$13,000,822	\$ 8,398,481
Adjustments to reconcile net operating revenues to net cash from operating activities-		
Depreciation and amortization	18,616,744	18,901,079
Adjustment for uncollectible accounts	-	(9,610)
Changes in operating assets and liabilities:		
Customer and vendor deposits	(1,579,433)	154,376
Water sales receivable	(373,689)	77,570
Other receivables	925,976	(1,314,220)
Materials and supplies	(73,670)	(543,648)
Accounts payable, accrued taxes, payroll and other liabilities	2,500,897	4,393,356
Total adjustments	20,016,825	21,658,903
Net cash from operating activities	\$33,017,647	\$30,057,384
	=====	=====
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Transfer of Seattle City Light assets related to the call center	\$ -	\$ 652,000
Revenue deferred related to South Fork Tolt Hydroelectric Project	\$ 653,444	\$ -
	=====	=====

The accompanying notes are an integral part of these statements.

CITY OF SEATTLE, SEATTLE PUBLIC UTILITIES - WATER FUND

STATEMENTS OF REVENUES, EXPENSES AND

CHANGES IN ACCUMULATED NET REVENUES

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
OPERATING REVENUES:		
Direct service	\$ 55,731,924	\$ 50,492,108
Wholesale	25,770,288	20,187,435
Other	1,345,067	1,276,817
	-----	-----
	82,847,278	71,956,360
	-----	-----
OPERATING EXPENSES:		
Resource stewardship	10,110,934	7,677,569
Water delivery services	13,717,064	11,219,843
Account services	3,832,722	3,811,470
Core services	15,080,042	14,309,795
City occupation tax	5,447,946	4,942,896
Other taxes	3,041,004	2,695,227
Depreciation and amortization	18,616,744	18,901,079
	-----	-----
	69,846,456	63,557,879
	-----	-----
Net operating revenues	13,000,822	8,398,481
	-----	-----
OTHER REVENUES (EXPENSES):		
Interest income	2,485,622	2,576,790
Timber income and other, net	460,104	827,775
Interest expense	(14,164,253)	(12,868,161)
Amortization of debt expenses	(1,391,137)	(1,380,008)
	-----	-----
	(12,609,664)	(10,843,604)
	-----	-----
Net revenues (expenses)	391,158	(2,445,123)
ACCUMULATED NET REVENUES, beginning of year	89,845,592	92,290,715
	-----	-----
ACCUMULATED NET REVENUES, end of year	\$ 90,236,750	\$ 89,845,592
	=====	=====

The accompanying notes are an integral part of these statements.

CITY OF SEATTLE, SEATTLE PUBLIC UTILITIES - WATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Seattle, Seattle Public Utilities - Water Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). On January 1, 1997, the City created Seattle Public Utilities which brought together under one administrative umbrella the Water, Solid Waste, Drainage and Wastewater functions of the City as well as certain engineering functions. For accounting purposes, the Fund (as well as the other funds) remains separate for accounting purposes. Seattle Public Utilities receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally, pays a business and occupation tax to the City's General fund. Water services provided by the Fund to other City departments and agencies are billed at rates prescribed by City ordinances. Under direction of the Seattle City Council, no charges are made to the City for water services for public fire protection.

Customer service and utility billing is performed by Seattle Public Utilities and the cost of this function is shared between the Water, Solid Waste and Drainage and Wastewater Funds. For the years ended December 31, 1998 and 1997, the Fund charged those utilities \$5,070,726 and \$5,557,128, respectively. Seattle Public Utilities also provides Call Center services for Seattle City Light and is reimbursed (at cost) for these services. For the years ended December 31, 1998 and 1997, the Fund charged Seattle City Light \$2,825,042 and \$2,491,105, respectively.

The Fund is subject to regulation by the City and the State of Washington. Service rates are authorized by ordinances passed by the City Council. Accounting policies and financial reporting are regulated by the Washington State Auditor's Office, Division of Municipal Corporations, and conform to generally accepted accounting principles. Descriptions of the Fund's significant accounting policies are as follows:

Revenues

The Fund provides water service to wholesale and retail customers. Wholesale customers (Purveyors) are under contract with the Fund and rates are set based on cost allocation criteria stipulated in the contracts.

Service rates for all customers are authorized by ordinances passed by the Seattle City Council. Billings are made to customers monthly or bimonthly. Revenues for water sold to customers between the last billing date and the end of the year are estimated and accrued in the accompanying financial statements.

Utility Plant and Depreciation

Utility plant is stated at cost or, if contributed, at donor cost or appraised value at the date of contribution. Costs include direct material, labor and indirect costs such as engineering, supervision, payroll taxes, pension benefits and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of replacements and betterments is capitalized. At the time property is retired and removed from service, the original cost of the property, together with removal cost less salvage value, is charged to the depreciation reserve.

Depreciation of plant in service is computed on the straight-line method, using composite rates based on estimated lives as follows:

Earthen source of supply developments	100 years
Transmission and distribution reservoirs, tanks and mains	50 to 100 years
Pumps, wells and treatment facilities	15 to 33 years
Buildings, fixtures and equipment	3 to 50 years

It is the Fund's policy to begin recording depreciation in the year following acquisition and to record a full year's charge in the year of disposition.

Contributions in Aid of Construction

The donor cost or appraised value of contributed property and equipment is included in contributions in aid of construction. Depreciation of contributed assets is charged to operating expense.

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, related costs are transferred to utility plant. Upon determining that a project will be abandoned, the related costs are charged to expense.

Capitalized Information Systems Costs

The Fund capitalizes all direct and incremental costs and the related overhead incurred in connection with the development of significant information systems projects that are to be used internally. Such costs are amortized over the projects' estimated useful lives, primarily six years.

Preliminary Survey Investigation Costs

The Fund defers costs associated with preliminary survey investigations and feasibility studies and amortizes those costs either over the periods for which they are included in rates or over the estimated economic life of the study. In the instance of abandonment of a project all associated costs would be written off at that time.

Conservation Programs

Conservation program costs which result in long-term benefits and reduce or postpone other capital expenditures are capitalized and amortized over their expected useful lives of 10 years, commencing when each program is in place. Costs of administering the overall program are expensed as incurred.

Environmental Liability Cleanup Costs

In the ordinary course of conducting its business, the Fund incurs liabilities related to the cleanup of certain environmental contaminants. The Fund's policy is to recognize the expense associated with the cleanup over those periods in which the costs are recovered through rates.

In 1995, the Fund recorded an estimated \$3,000,000 liability for future environmental cleanup costs related to lead-based paint and arsenic contamination surrounding several standing water tanks as well as expected remediation efforts associated with underground fuel tank replacements. The remaining liability of \$2,500,000 is reflected as a component of other long-term liabilities on the balance sheet. The total cost is expected to be recovered through rates over an estimated 30-year period.

The schedule below presents the changes in the estimated liability (numbers in 000's):

	<u>1998</u>	<u>1997</u>
Beginning liability	\$4,847	\$3,000
Payments	(368)	(970)
Change in estimate	(1,979)	2,817
	-----	-----
Ending liability	\$2,500	\$4,847
	=====	=====

Deposits with City Treasurer

The Executive Services Department - Finance invests all temporary cash surpluses for City departments. This Department may, at various times, invest these surpluses in certificates of deposit issued by Washington state depositories that participate in a state insurance pool, U.S. Treasury and agency securities, prime bankers' acceptances trading in the secondary market and repurchase or reverse repurchase agreements with primary dealers that use authorized securities as collateral. Delivery of collateral on the underlying securities is required on all repurchase agreement transactions. The Fund is allocated interest income by the City.

It is the City's policy that all investments of the Fund, except repurchase or reverse-repurchase agreements, be held by banks or trust companies as agents of the City and in the City's name. The City's policy is to hold all investments to maturity. The Fund had no investments at December 31, 1998 and 1997.

For purposes of the statements of cash flows, the Fund considers all deposits held by the Executive Services Department - Finance as cash. Balances on deposit for 1998 and 1997, are summarized as follows:

	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
Rate Stabilization Fund	\$ -	\$ 5,800,000
Construction Fund	27,574,384	31,653,263
Operating Fund	1,346,939	677,623
	-----	-----
	\$28,921,323	\$38,130,886
	=====	=====

The Rate Stabilization Fund was established to minimize the effect on rates of revenue fluctuations between years, created by multiyear rate periods and the variability of water demand. By transferring funds into the Rate Stabilization Fund, adjusted net revenue available for debt service, as defined, would be decreased by the amount of the transfer. Conversely, transfers out of the fund would increase adjusted net revenue available for debt service.

A planned cash transfer from the Rate Stabilization fund to the Water Fund occurred in 1998. The full balance of the Rate Stabilization Fund was used to help lower 1998 revenue shortfalls.

Capital expenditures are initially funded by the Operating Fund, which is subsequently reimbursed by the Construction Fund.

Timber Sales

The Fund occasionally contracts with outside timber purchasers to harvest timber owned within its watershed and nonoperating properties. Revenue is recognized based on terms of the harvesting contract. The cutting schedules and associated revenues and expenses are primarily determined by market and other factors. Income arising from timber operations may vary significantly from year to year.

Net revenues from commercial thinning, salvage and timber harvest in the Cedar River Watershed are obligated, in compliance with City ordinance, to support land and habitat acquisition within the watershed.

Compensated Absences

Employees earn vacation based on their date of hire and years in service and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25% of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement. The Fund records a liability for estimated sick leave payments.

2. WATER SALES AND OTHER RECEIVABLES:

Water sales receivable is composed of:

	December 31,	
	1998	1997
Receivables arising from billings of metered water sales	\$4,858,721	\$4,413,600
Allowance for doubtful accounts	(54,910)	(56,743)
	4,803,811	4,356,857
Accrual for estimated unbilled water revenue	3,739,942	3,813,207
	\$8,543,753	\$8,170,064
	=====	=====

Other receivables are composed of:

	December 31,	
	1998	1997
Utility local improvement district assessments	\$ 1,478	\$ 20,164
Water main assessments	457,048	604,150
Land sales receivable	235,842	280,090
Richmond Beach surcharge	351,173	381,189
Due from other City departments	3,568,761	4,483,767
Other	1,250,902	1,021,820
	5,865,204	6,791,180
Less- Current portion	(4,856,141)	(5,624,750)
Total other receivables, net of current portion	\$ 1,009,063	\$ 1,166,430

3. REVENUE BONDS:

In June 1993, the Fund issued \$256,255,000 of Water System Revenue and Refunding Bonds with varying annual principal payments due in 1998 and continuing through 2023 with interest rates ranging from 2.70% to 5.50%. At December 31, 1998 and 1997, Water System Revenue and Refunding Bonds outstanding were \$212,930,000 and \$222,255,000, respectively, with an effective interest rate of approximately 5.2% for both 1998 and 1997. A portion of the proceeds from the issuance, in the amount of \$181,887,596, was placed in trust on June 25, 1993, to satisfy future debt service payments and defease the outstanding First Lien Revenue Bonds and Bond Anticipation Notes. The outstanding balance of the defeased bonds was \$62,325,000 and \$63,300,000 at December 31, 1998 and 1997, respectively. Defeased bonds are not included in the Fund's outstanding long-term debt since the Fund legally satisfied its obligation through the refunding transactions. The remaining proceeds were deposited in the Construction Fund to be used to fund capital improvement projects. A deferred expense of \$13,427,603 was recorded in connection with the defeasance and is being amortized over the lives of the refunded bonds.

During 1995, the Fund issued \$45,000,000 of Water System Adjustable Rate Revenue Bonds with varying principal payments due beginning in the year 2000 and ending in 2025. The balance outstanding at December 31, 1998 and 1997, was \$45,000,000 with an average interest rate of approximately 3.41% and 3.63%, respectively. Proceeds of the issuance are being used to Fund capital improvement projects.

In March 1997, the Fund issued \$53,000,000 of Water System Revenue Bonds with varying annual and term principal payments due beginning in 1997 and ending in 2026, with interest rates ranging from 5.375% to 5.625%. Proceeds of the issuance are being used to finance certain capital improvements of, and conservation programs for the Fund. The balance outstanding at December 31, 1998 and 1997 was \$51,810,000 and \$52,675,000, respectively, with an effective interest rate of approximately 5.5%.

In June 1998, the Fund issued \$80,000,000 of Water System Revenue Bonds with varying annual and term principal payments due beginning in 1999 and ending in 2027, with interest rates ranging from 4.50% to 5.00%. Proceeds of the issuance are being used to finance certain capital improvements of, and conservation programs for the Fund. The balance outstanding at December 31, 1998 was \$80,000,000.

Future principal and estimated interest payments for revenue bonds are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
1999	\$ 12,000,000	\$ 19,699,364
2000	13,600,000	19,129,632
2001	14,235,000	18,491,838
2002	14,860,000	17,814,038
2003	15,565,000	17,095,381
Thereafter	319,480,000	203,935,906
	-----	-----
	\$389,740,000	\$296,166,159
	=====	=====

The Water System Revenue and Refunding Bonds and Water System Revenue Bonds contain certain financial covenants, the most significant of which requires the Fund to maintain adjusted net revenue of not less than 125% of annual debt service and maintain a reserve to secure the payment of principal and interest equal to the lesser of the maximum annual debt service or 125% of the average annual debt service. Adjusted net revenue available for debt service, as defined by the bond covenants, was 200% of annual bond debt service for 1998. The Fund has obtained reserve insurance policies to meet its reserve requirements. Adjusted net revenue available for debt service for the year ended December 31, 1998, is determined as follows:

Net income	\$ 391,158
Add:	
City occupation tax	5,447,946
Depreciation and amortization	18,616,744
Interest on revenue bonds	17,931,611
Amortization of debt expenses	1,391,132
Contributions in aid of construction	5,276,752
Transfer of Rate Stabilization Fund	5,800,000

	54,855,343
Less:	
GASB 31 fair value adjustment	(124,742)
Capitalized interest	(3,786,266)

Adjusted net revenue available for debt service	\$50,944,335
	=====
Debt service requirement (cash basis)	\$25,491,770
	=====
Coverage percentage	200%
	=====

4. OTHER LONG-TERM DEBT:

During 1993, the Fund entered into an agreement to borrow up to \$2,220,000 from the Washington State Department of Community Development under its Public Works Trust Loan Program for the construction of certain capital improvements. As of December 31, 1998 and 1997, respectively, the Fund owed \$1,773,251 and \$1,891,468. Amounts borrowed under the agreement accrue interest at 1% per annum and are to be repaid in 19 equal annual installments, plus interest.

5. UTILITY PLANT:

Utility plant consists of the following:

	December 31,	
	----- 1998	----- 1997
Equipment	\$ 541,290,620	\$ 507,632,530
Buildings, fixtures and grounds	47,987,939	37,751,137
Right of way	1,139,345	1,139,345
	-----	-----
Total plant in service	590,417,904	546,523,012
Less- Accumulated depreciation	(177,221,220)	(163,690,694)
	-----	-----
	413,196,684	382,832,318
Land	11,346,119	10,884,216
Property held for future use	228,605	228,605
Construction in progress	126,805,879	76,284,923
	-----	-----
Utility plant, net	\$ 551,577,287	\$ 470,230,062
	=====	=====

During 1998 and 1997, the Fund capitalized interest costs relating to construction of \$3,786,266 and \$2,880,295, respectively.

During 1997, the Fund entered into a land exchange agreement with the Weyerhaeuser Company for the purpose of consolidating land holdings in the Tolt Watershed. The Fund's land, which had an appraised value of approximately \$8,700,000, was traded for Weyerhaeuser land plus a cash settlement, for differences in appraised land values, of \$485,000. The Fund recorded a gain in this transaction of approximately \$479,000, which has been included as a component of timber income and other in the Statement of Revenues, Expenses and Changes in Accumulated Net Revenues.

6. OTHER DEFERRED ASSETS:

Other deferred assets consist of the following:

	December 31,	
	1998	1997
Capitalized information systems costs	\$ 35,412,595	\$ 26,342,710
Capitalized conservation costs	8,222,526	7,046,769
Environmental liability costs	4,021,283	6,000,000
Preliminary investigation costs	715,923	454,552
Deferred debt expenses and other	2,680,228	2,336,381
Less- Accumulated amortization	(24,000,640)	(19,398,298)
	-----	-----
	\$ 27,051,915	\$ 22,782,114
	=====	=====

7. RISK FINANCING LIABILITIES:

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims have been recorded by the Fund.

At December 31, 1995, the City initiated a program to convert its insurance plan for workers' compensation claims to a cost-reimbursement program. The Fund was included in the first phase of the program and, as a result, accrued an expense and a liability for its workers' compensation claims outstanding at December 31, 1995. The liability had formerly been recorded in the City's Industrial Insurance Fund. However, the City still maintains the liability for estimated incurred but not reported claims. The City's current intentions are to transfer the liability for estimated incurred but not reported claims to the Fund in 1999, when sufficient historical claims data is available to perform a more detailed actuarial study.

For 1998 and 1997, liabilities for workers' compensation claims as well as other claims are discounted over an eight-year period at the City's rate of return on investments, 6.12% and 5.40%, respectively. Claims expected to be paid within one year were \$123,957 and \$345,189 at December 31, 1998 and 1997, respectively, and are included in accounts payable, accrued taxes, payroll and other. The long-term portion is included in other long-term liabilities. The schedule below presents the changes in the liability for workers' compensation claims as well as other claims, combined (risk financing liabilities).

	Risk Financing Liabilities	
	December 31,	
	1998	1997
Beginning liability	\$1,032,884	\$ 1,205,196
Payments	(603,655)	(1,112,842)
Incurred claims and changes in estimates	153,818	940,530
	-----	-----
Ending liability	\$ 583,047	\$ 1,032,884
	=====	=====

8. RETIREMENT PLANS:

Pension Costs

All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the System), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of service; and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances. The System's financial report that includes financial statements and required supplementary information for the System is available through the City.

City employees are required to contribute 8.03% of their annual base salary to the System. The City is required to contribute 8.91% of its covered payroll to fund the System. Employer rates are established by City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 1998, 1997 and 1996 were approximately \$2,400,000, \$2,336,000, and \$2,200,000, respectively. The Fund's contribution in 1998 represents its full liability to the System.

Deferred Compensation

The City offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation is paid to employees upon termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the Plan and all income attributable to those amounts are (until paid or made available to the employee or other beneficiary) solely the property and right of the City, subject only to the claims of the City's general creditors. Participants' rights under the Plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant. The plan assets and the corresponding liability to employees for deferred compensation and accumulated net earnings thereon are not separately reported in Fund's balance sheet but are instead reported in an agency fund in the City of Seattle's comprehensive annual financial report.

Effective January 1, 1999, in accordance with recent changes to Internal Revenue Code, Section 457, the City placed the plan assets into trust for the exclusive benefit of plan participants and beneficiaries.

The City's legal counsel believes that the City has no liability for losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. The investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, enrollees accept and assume all risks that adhere to the Plan and its administration.

9. COMMITMENTS AND CONTINGENCIES:

The Fund is in the process of preparing a comprehensive environmental management plan for its Cedar River watershed. The plan will cover matters such as endangered species habitat and conservation planning. As part of this plan, the Fund is negotiating with certain government agencies and Indian tribes concerning the development of measures to mitigate the impact of Fund facilities on the Cedar River fishery resource. Expenditures are expected to be funded through sales of excess land and timber and/or revenue from water sales.

The Fund has negotiated an agreement relating to compliance with the Surface Water Treatment Rule on its Cedar River supply system, which requires it to evaluate ozonation and filtration, and recommend changes to current treatment. A recommendation for ozonation compatible with filtration was provided to the Washington State Department of Health in November 1995, and approved in January 1997. The cost for an ozonation facility is estimated at \$80,000,000 to \$100,000,000, depending on facility size and treatment technology. It is anticipated that these estimated capital expenditures will be funded over the next decade, primarily through water revenue bonds. The current schedule would make this facility operational by 2003.

The Fund intends to construct a filtration plant on its Tolt River supply system, which is expected to become operational late in the year 2000. The project is being implemented using a design-build-operate procurement process. A single consortium is being retained to design, construct, then operate the facility for 25 years. Expenditures for these three phases of the project are expected to be less than \$135,000,000, the major portion of which are expected to be funded through the issuance of bonds.

Capital expenditures for 1999 are estimated to be approximately \$135,000,000. However, the level of expenditures in 1999 and in subsequent years may vary significantly based upon facility requirements and unforeseen events.

WATER FUND

SUPPLEMENTARY INFORMATION
(Unaudited)

Water Fund

Year 2000 Readiness Disclosure Statement:

The Year 2000 issue involves the way computers process dates. In order to save memory and processing time programmers in the early days of computing left off the century portion of a date. An example of this short cut is 1/1/99 to represent the first day of 1999. Unfortunately, when computing spans a century the use of two digit years become ambiguous e.g. does 00 refer to 1900 or 2000? The problem has already impacted some of the City's forward-looking processes such as building permit and court date scheduling. Both of these systems have been remediated and placed back into production and are currently processing 21st century dates.

The City of Seattle has completed an inventory of computer systems and other electronic equipment that support vital city services. The City has identified systems requiring Year 2000 remediation, including the following which are related to the Water Fund. Seattle Public Utilities has taken action to reduce the risk of interruption to its business operations and service delivery due to Year 2000 issues, as follows.

System	Awareness	Assessment	Remediation	Validation /Testing
CUBS Combined Utility Billing System	Completed	Completed	Completed	Completed
Tolt Dam Warning System	Completed	Completed	Completed	

There were no remaining contracted amounts at December 31, 1998 for the CUBS system, which was complete before then. No contracted amounts are outstanding at December 31, 1998 for the Tolt Dam Warning System because it is being remedied with in house resources. This system of sensors provides early warning of dam failure to nearby towns.

Following are additional City identified systems, which affect the Water fund, but for which other Departments are primarily responsible:

- Seattle's Financial Management System. In early 1997 the City recognized that its financial management system required substantial remediation to function beyond the end of 1999. In the fall of 1997 the City began installation of a new Year 2000 compliant financial management system. This new system was in the validation and testing stage as of 12/31/98, and is scheduled to go into production in July of 1999.
- Human Resources Information System. The City outsources its payroll processing, and the vendor has certified that the payroll system is year 2000 compliant. The HR portion of HRIS was in the assessment stage at 12/31/98, with validation and testing beginning in April, 1999.

Because of the unprecedented nature of the year 2000 issue, it's effect and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be Year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that the parties with whom the City does business will be year 2000 ready. The City continues to refine its Y2K remediation methodology to confirm that it has identified and remediated other equipment it requires to conduct City operations.

Appendix D

Book-Entry Transfer System

Book-Entry Transfer System

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the "Beneficial Owners") should confirm the following with DTC or its participants (the "Participants").

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede and Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued for each maturity of the Bonds, as set forth on the cover of this Official Statement, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that the Participants deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the Participants. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system, in the denominations of \$5,000 or any integral multiple thereof, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede and Co. The deposit of Bonds with DTC and their registration in the name of Cede and Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements that may be in effect from time to time.

Redemption notices will be sent to Cede and Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede and Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede and Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar or the City, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City and the Bond Registrar, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances and in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

DTC management is aware that some computer applications, systems, and the like for processing data ("Systems") that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 problems." DTC has informed its Participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and income payments) to securityholders, book-entry deliveries, and settlement of trades within DTC ("DTC Services"), continue to function appropriately. This program includes a technical assessment and remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third party vendors from whom DTC licenses software and hardware, and third party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third party vendors from whom DTC acquires services to: (i) impress upon them the importance of such services being Year 2000 compliant; and (ii) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

The following information has been provided by the City.

The City may decide to discontinue use of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Neither the City nor the Bond Registrar will be required to transfer or exchange Bonds during the period between a record date and the next succeeding interest payment date or redemption date. For purposes hereof, record date will mean in the case of each interest payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest payment date.

With respect to Bonds registered on the Bond Register in the name of Cede and Co., as nominee of DTC, the City and the Bond Registrar will have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede and Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any amount with respect to principal of and premium, if any, or interest on the Bonds, (iv) the selection by DTC or any Participant of any

person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or action taken by DTC as registered owner, or (vi) any other matter. The City and the Bond Registrar may treat and consider Cede and Co., in whose name each Bond is registered on the Bond Register, as the holder and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever.

The City's obligations under the Bond Ordinance, the Bond Resolution and the Bonds are to the registered owner or owners of the Bonds, and the City will not be liable to the Participants or Beneficial Owners of Bonds registered in the name of any nominee of DTC or a successor depository, for any acts or omissions of DTC or such successor depository.

Appendix E

Specimen Municipal Bond Insurance Policy

Appendix F

Certain Information Regarding the Reserve Insurance

Debt Service Reserve Fund Policy

The information in this section has been provided by Financial Guaranty Insurance Company.

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond Debt Service Reserve Fund Policy (the "Reserve Policy"). The Reserve Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City, provided that the aggregate amount paid under the Reserve Policy may not exceed the maximum amount set forth in the Reserve Policy (\$9,440,402.72). Financial Guaranty will make such payments to the City's Bond Registrar, as the paying agent (the "Paying Agent"), for the Parity Bonds on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the City. The term "nonpayment" in respect of a Parity Bond includes any payment of principal or interest made to an owner of a Parity Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a Paying Agent in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Reserve Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Reserve Policy covers failure to pay principal of the Parity Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Parity Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The Reserve Policy shall terminate on the earlier of the scheduled final maturity date of the Bonds or the date on which no Bonds are outstanding under the Bond Legislation.

In connection with its issuance of the Reserve Policy, Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Policy, it be granted the power to exercise any remedies available at law or under the Bond Legislation other than (A) acceleration of the Bonds or (B) remedies which would adversely affect holders in the event that the issuer fails to reimburse Financial Guaranty for any draws on the Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. See "Ratings on the Insured Bonds" and "Ratings on the Uninsured Bonds" under "Other Bond Information."

The Reserve Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and is subject to regulation by the State of New York Insurance Department. As of June 30, 1999, the total capital and surplus of Financial Guaranty was approximately \$1,285,559,848. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: (212) 312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: (212) 480-5187).

Year 2000 Readiness Disclosure. Financial Guaranty is aware of the potential disruptive effect of the Year 2000 problem and recognizes that it is possible that an issuer may be unable to make timely payment of debt service due to Year 2000 problems. Financial Guaranty is surveying selected issuers and paying agents to assess their Year 2000 readiness. Financial Guaranty believes that it has adequate sources of liquidity to cover any payments occasioned by an issuer's temporary inability to make timely payment of debt service due to Year 2000 problems.

Commencing in early 1998, Financial Guaranty implemented an action plan to make its computer systems and applications Year 2000 ready. As of this time, Year 2000 system remediation and testing is complete for all Financial Guaranty's internal systems and applications. In addition, Financial Guaranty has updated, and will continue to update, its business contingency and disaster recovery plans. Financial Guaranty also will continue to monitor certain third parties throughout 1999 and into the year 2000.